THE BOOTS COMPANY

Report and Accounts

for the year ended 31st March 1996

The Boots Company embraces businesses operating principally in retailing, the manufacture and marketing of health and personal care products throughout the world and the development and management of retail property.

Our objective is to maximise the value of the company for the benefit of its shareholders. We will do so by investing in our businesses to generate strong cash flows and superior long term returns.

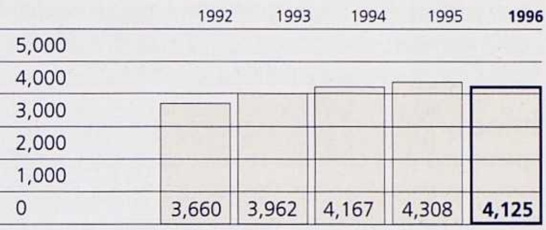
While vigorously pursuing our commercial interests, we will, at all times, seek to enhance our reputation as a well managed, ethical and socially responsible company.

Financial Highlights and Contents

Turnover £m

Turnover decreased by 4.3% to £4,124.7 million

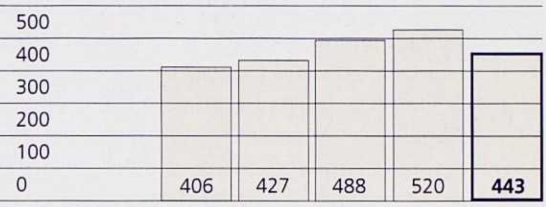
Turnover from continuing operations increased by 5.8%



Operating profit before exceptional items £m

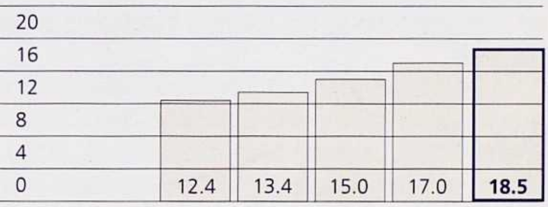
Operating profit before exceptional items decreased by 14.9% to £442.6 million

Profit before tax and exceptional items was £493.5 million

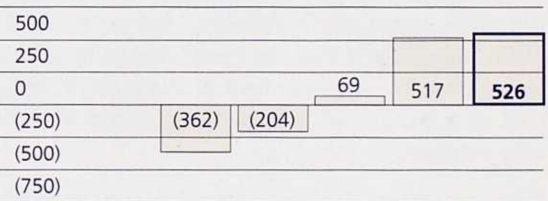


Dividends per share pence

Total dividend increased by 8.8% to 18.5 pence



Net (debt)/cash £m



I am pleased to report another good result. Profits and cash flow made further progress, and we propose a final dividend of 12.8p. This gives a total for the year of 18.5p, an increase of 8.8%.

Strategy We continue to maintain a high level of investment, focused on our existing operations and directed to maximise long term value. Increasing focus on core business is a common theme across the group. Boots The Chemists is concentrating space and product development effort on healthcare and beauty products. Halfords is shifting its emphasis from high street branches to superstores and increasing its own brand ranges. Boots Opticians continues to build its own brand business. A G Stanley is scaling down FADS to a core of more profitable high street sites while focusing Homestyle on retail parks. Do It All is differentiating itself in an overcrowded market by concentrating on a 'project focused' display format and expert DIY advice. Boots Healthcare International is building and extending its strong brands internationally in the self medication market. Boots Contract Manufacturing is expanding in Europe to meet growing demand there. Boots Properties, our second largest business, continues to expand the property portfolio by selected purchases and development.

Acquisitions and disposals In line with this strategy of concentrating effort and investment on core operations, we made a minor acquisition and agreed one substantial disposal during the year.

In December 1995 we acquired Croda International's cosmetics and toiletries manufacturing businesses in France and Germany. These have a combined turnover of about £17m, and will enable Boots Contract Manufacturing (BCM) to accelerate its expansion in Europe. BCM is one of Europe's largest suppliers of private label cosmetics and toiletries and its customers now include major retailers in France, Spain, Holland and Portugal in addition to the UK.

In February 1996 we announced the sale of Childrens World for £62.5m to Storehouse, the retail group which includes Mothercare and this transaction was completed on 17th May 1996. We judged that we could realise greater value for shareholders by selling the business rather than by injecting further investment: its profit and growth potential will be greater as part of a group with a larger presence in the children's market, and this was reflected in the very satisfactory sale price.

Remuneration We are motivating staff throughout the organisation to recognise and build shareholder value. In all our business units, bonus schemes are based on the achievement of targets related more closely than ever to value creation. Our short term bonus scheme for some 200 senior managers continues to evolve, and now includes an option to convert half of bonus payments into a longer term share-based scheme.

We have ended awards of executive share options for directors and our most senior managers, which are being replaced by a long term incentive scheme. Half of each bonus earned is paid immediately, with the balance due in the form of shares after three years of continued employment. These schemes relate executive directors' and senior managers' rewards closely to the benefits they deliver to shareholders and put us in the forefront of businesses working to tie incentives to the achievement of strategic objectives. They have been well received by our major institutional shareholders.

As a member of the Greenbury Committee, I fully appreciate the difficult task that it has faced. At Boots, as shareholders would expect, we will continue to seek out and adopt what we regard as best practice with regard to directors' remuneration and its disclosure. The disclosure of directors' pension entitlement is the subject of continuing debate. We intend to follow best practice when there is some consensus on what that is. In the meantime we continue to report as we have done in the past.

People I should like to pay tribute to Alan Hawksworth, who retires on 31st July 1996. Alan joined the company as a management trainee in 1959, becoming personnel director on the main board in 1984. In that capacity he has done much to build on the company's justifiable reputation – among our staff and others outside Boots – as a good employer in a rapidly changing business environment. The board is grateful for his long and hard-working contribution to the company's fortunes, and I thank him for it.

Sir Ian Prosser is also retiring, having joined the board as a non-executive director in 1984. His wise counsel and diligent questioning have been invaluable, and I am particularly appreciative of his contribution as chairman of the Audit Committee.

Our emphasis on building value is evident. The value of our people continues to grow with their skills, knowledge, experience and dedication. It is no coincidence that our businesses won no less than three new Investor in People awards during the year for the quality of their training and communication. Nor is it any coincidence that we can confidently put forward the expertise of our store staff as a key differentiator for our businesses. It is our people who build value and I am grateful to them for their achievements.

Outlook The economy continues to give conflicting signals. However, there are growing signs of a recovery in consumer confidence and we have every reason to expect that this will benefit our retail interests. Internationally, we expect the changes sweeping through the world's healthcare markets to provide more opportunities for us. Overall, the outlook is encouraging.

Michael Angus

Sir Michael Angus
Chairman

Group sales from continuing businesses increased by 5.8% to £4,010.4m, and profit before tax and exceptional items was £493.5m. This was an excellent achievement in another difficult year for UK retailing.

Despite flat or even declining markets, most of our retail businesses increased their market shares. This augurs well for their prospects when markets recover, and there are signs that 1996 will show improvement after several years of uncertainty. Boots The Chemists (BTC) has been helped by the growing importance consumers attach to healthcare. Halfords continues to benefit from store portfolio repositioning, but our home improvement businesses have suffered from persistent lack of consumer confidence. Boots Healthcare International (BHI) and Boots Contract Manufacturing have enjoyed relatively buoyant markets and still have many opportunities to explore.

Cash flow Net cash at the year end at £526.2m was £9.0m higher than the previous year. Purchases of fixed assets at £225.1m were in line with the previous year after taking account of the disposal of Boots Pharmaceuticals. We continue to concentrate capital investment in our most profitable businesses, BTC and Boots Properties. The revenue investment in BHI increased by over 30% to £74m.

Businesses Boots The Chemists again performed strongly, with sales up 5.6% and operating profit up 10% to £384.8m. The growth and profit improvement of this business continue to confound sceptics who fear that it may have exhausted its potential. On the contrary: its continuingly strong growth demonstrates the effectiveness of focused product ranges, competitive prices, quality customer service and attractive shopping environments. Its profit improvement results from sustained application of our value based management approach, supported by retail information and analysis systems that are among the most advanced in the UK.

Halfords is responding well to the transfer of management skills and the application of our proven retailing approach. Although all its principal markets were depressed, it increased sales by 3.3% – gaining market share and increasing operating profit by 7.8% to £22.1m. This improvement was achieved despite substantial investment in new warehousing capacity and reflected a further reduction in losses from the garage servicing business.

Boots Opticians increased sales by 11.1% and operating profit before exceptional items by 31.3%. This was a good performance. Additionally, there was an exceptional VAT refund of £12.8m. The business increased its market share and profitability reflected the continued strength of own brand sales, accounting for 75% of turnover.

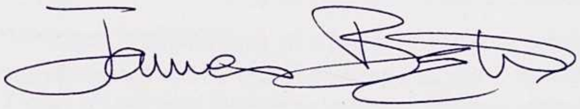
Our DIY and home decorating businesses have both suffered from market overcapacity. Our response has been to close unprofitable stores and invest in enhancing the service, quality, products and environment in those that remain. Encouragingly, this has already begun to improve underlying performance. In 1995/96, however, A G Stanley's sales fell 8.5% and losses rose to £12.2m. The new management team is making progress in transferring the emphasis to Homestyle stores selling competitively priced, co-ordinated decor products on retail parks. Do It All, where sales fell 7.9% and losses increased to £10.1m, is achieving encouraging sales improvements in the project focus format stores, in which products are arranged around specific projects and staff are trained to give expert advice.

Boots Healthcare International's comparable sales increased 12.3%, whilst the loss was £8.2m. This reflects revenue investment of over £74m in developing and marketing new products as the business builds on the strength of its core brands and expands into new markets worldwide. We will continue to invest substantially in this business, which has excellent long term prospects.

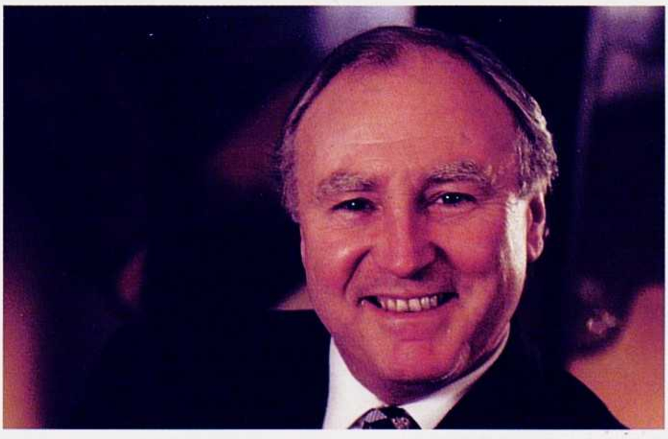
Capital investment has been running at record levels in Boots Contract Manufacturing for several years, and in 1995/96 the business stepped up its investment in marketing. The short term result was to reduce profits by 6.2% to £16.7m despite a 10.8% increase in sales. However, we expect the business to grow rapidly as it builds on its foothold in the fast-expanding European market, supported by the additional manufacturing facilities in France and Germany acquired during the year.

Boots Properties is now our second largest profit generator. Operating profit was £68.2m, up 2.1%. Boots Properties completed three new shopping centres and retail park developments during the year, and in April 1996 completed the only covered shopping complex to open inside the M25 this year – a £40m town centre development in Harrow.

Regulation The Office of Fair Trading is currently investigating resale price maintenance (RPM) on pharmacy medicines. We believe that RPM should remain in force because consumer interests are best served by retaining the service to local communities currently provided by pharmacies. Whatever the outcome of the investigation, Boots The Chemists is well placed to minimise any adverse impact on financial performance. A decision to end RPM would affect the margins on only a very small proportion of BTC's sales, and in the event of competitive price cutting, our past experience suggests that we would emerge with increased market share.



Lord Blyth of Rowington
Deputy Chairman and Chief Executive



Performance measurement We believe that the best overall measure of long term performance is total return to shareholders, comprising gross dividends paid and growth in share price. We monitor the company's total shareholder return against ten leading UK companies. The composition of this group was amended at the beginning of this year following the successful disposal of Boots Pharmaceuticals. We dropped Glaxo, Wellcome and Fisons from the list, retaining SmithKline Beecham and adding Smith & Nephew, because of their interests in self-medication products. We also added two new retailers, Sears and Great Universal Stores (GUS). Our performance over the past five years is shown below.

Shareholder returns of The Boots Company compared with peer companies

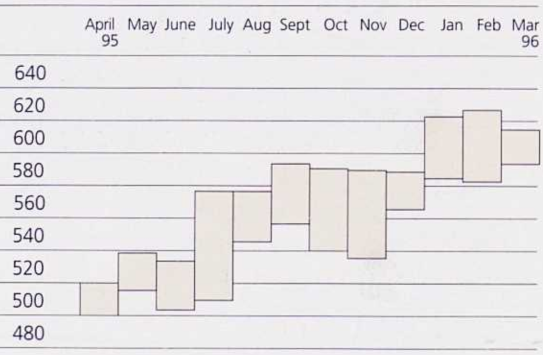
Returns are calculated using average share prices over the 3 months to 31st March

	Five years to 31st March 1996	%
1	GUS	172.3
2	SmithKline Beecham	127.4
3	Marks & Spencer	106.8
4	Boots	106.2
5	Smith & Nephew	102.6
6	Kingfisher	55.0
7	W H Smith	49.0
8	Reckitt and Colman	47.2
9	Sears	40.8
10	Sainsbury	37.0
11	Tesco	35.7

The growth in share price is a key element in the increase in returns to shareholders. The company's share price as at 31st March 1996 was 599p as compared with 358p five years before. This growth of 67% compares favourably with an increase of 51% in the FTSE-100 index over the same period.

In the 12 months ended 31st March 1996, the share price fluctuated between a low of 500p and a high of 627p. At the year end, the group was capitalised at approximately £5.7bn. The chart below shows the range of share prices during each month of the financial year.

The Boots Company PLC ordinary share price pence



Earnings per share (EPS) for the current year was 35.8p. This has been calculated in accordance with FRS3 'Reporting financial performance' and the significant reduction from last year's level is due to the impact of the exceptional items arising last year. The underlying performance of the group is better measured by an alternative EPS calculation after excluding exceptional items. EPS on that basis was 34.7p, 3.6% lower than last year. This reduction is entirely accounted for by the disposal of Boots Pharmaceuticals after taking account of the interest received from the cash proceeds of that disposal together with the earnings per share improvement from the share repurchase carried out last year.

Dividend An interim dividend per share of 5.7 pence was paid in February. This, together with the proposed final dividend of 12.8 pence per share, will bring the total for the year to 18.5 pence per share, an increase of 8.8% over last year. This level of dividend is covered 1.9 times by earnings after exceptional items.

Cash flow Cash management is one of the key performance measures used by the company to monitor its businesses. The maximisation of cash flow is the key factor in value creation.

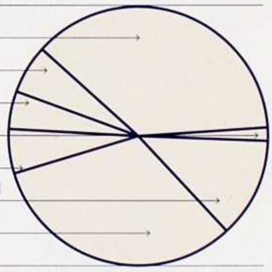
A summary of cash flows for the financial year is shown below and indicates clearly the ability of the businesses to generate cash despite significant investment. Free cash flow is defined as the cash flow available to all of the providers of capital. The summary below differs from the FRS1 cash flow statement shown on page 53, primarily in that it analyses the movement in net cash rather than cash and cash equivalents.

Summary of cash flows	**1996 £m**	1995 £m
Operating cash flow	**536.5**	642.3
Disposal of businesses (page 60)	**(6.7)**	896.8
Purchase of fixed assets	**(225.1)**	(255.5)
Taxation paid	**(152.7)**	(139.5)
Interest received	**55.8**	49.4
Other items	**(4.8)**	17.8
Free cash flow	**203.0**	1,211.3
Less: Share repurchase	**–**	(511.3)
Interest paid	**(39.6)**	(41.2)
Dividends paid	**(154.4)**	(152.3)
Net cash flow (page 53)	**9.0**	506.5

Operating cash flow of £536.5m was £105.8m lower than last year, due mainly to the loss of the contribution from Boots Pharmaceuticals, following the disposal of that business. In addition, there was further investment in working capital in order to ensure that the remaining businesses, particularly Boots The Chemists, can effectively improve customer service. Purchases of fixed assets at £225m were £30m below last year. After excluding Boots Pharmaceuticals, investment in fixed assets was in line with the previous year. The analysis below shows that investment in all businesses has continued, although at a much lower level in A G Stanley. Capital expenditure within Boots The Chemists and Boots Properties remains at previous levels.

Business Capital Expenditure £m

86.1	Boots The Chemists
14.5	Halfords
11.2	Boots Opticians
4.0	A G Stanley
12.5	Boots Healthcare International
29.5	Boots Contract Manufacturing
75.1	Boots Properties



Interest Net interest receivable increased by £45.5m to £50.9m due principally to the substantial sums on deposit following the disposal of Boots Pharmaceuticals.

Liquidity and funding The strong cash flow performance in the second half of the year resulted in an increase in net cash to £526m at the year end.

Total cash investments at the year end were £893.9m compared with £1015.6m last year and were invested with a maximum maturity of 12 months. This is offset by a £130m reduction in the level of borrowings at the year end.

Any seasonal and overseas requirements are met from commercial paper and short term bank borrowings. There are no committed bank facilities.

Taxation The effective rate of tax for the group was 32.9% (1995 21.9%), although if the effect of exceptional items is excluded the rate increases to 33.1% (1995 30.6%). As indicated last year, the effective rate of tax for the group has increased significantly following the disposal of Boots Pharmaceuticals and the loss of the benefit of US federal tax relief given for Puerto Rican income.

The effective rate after excluding exceptional items is just above the nominal UK rate of 33% due to the impact of the overseas operations where tax rates are generally higher than the UK.

Boots Pharmaceuticals Following extensive discussions with BASF we agreed outstanding issues in respect of Boots Pharmaceuticals towards the end of the financial year. A further payment of £73m plus interest was received from BASF on 24th May 1996.

Although this cash receipt is lower than the debtor reflected within last year's annual report, there is no impact on reported profits as the shortfall was anticipated in the disposal provision created at the same time.

Childrens World The disposal of this business took place on 17th May 1996 and the consideration of £62.5m was received from Storehouse on the same day. We sold £44m of assets and after taking account of appropriate costs and provisions will report an exceptional profit of around £15m during 1996/97.

Pensions An actuarial valuation of the UK pension scheme as at 1st April 1995 was completed during the year. This revealed a surplus of £150m in the actuarial value of the assets of £1.35bn compared to the actuarial liability of pension benefits. Therefore there is no requirement for the company to recommence contributions to the scheme although a charge of £4m has been taken in the year.

Accounting standards The company is keen to actively participate in discussions on new and proposed accounting standards and practices. It fully supports the objectives of the Accounting Standards Board aimed at improving the quality and consistency of financial statements for the benefit of shareholders and other users.

Treasury policy

Control We have established clear principles covering all major aspects of treasury policy. These aim to benefit longer term shareholders. Strict guidelines for cash investments apply worldwide, and investments are made only in high quality bank deposits and other liquid instruments. Controls are in place which seek to prevent fraud and other unauthorised transactions, and minimise counterparty risk. There are regular reviews by the group's internal audit staff.

Interest rate policy We do not believe that hedging the impact of short term movements in interest rates increases the worth of the company, or that long term shareholders ascribe value to the reduction in earnings volatility which results from such hedging.

In common with other UK retailers, the group has significant liabilities through its obligations under property leases, the interest rate on which can be considered to be fixed. In order to change the balance between fixed and floating rate debt, during the year the group entered into long term interest rate swaps on £250m relating to leases.

Currency exposure policy The major group exposure to the US dollar has been removed with the sale of Boots Pharmaceuticals. The US dollar currency swaps and US dollar bond hedging part of this exposure have been neutralised. Modest sales and purchases are made in a range of currencies, but it is not considered that hedging them into sterling adds value.

David Thompson
Finance Director

		Key Facts
BOOTS THE CHEMISTS	Boots The Chemists is market leader in many areas of its business including healthcare, cosmetics, toiletries, baby consumables, films and film processing.	**1226** total stores 1025 small stores 185 large stores 6 free-standing 'photo centres' 10 Health centres
HALFORDS	The largest retailer of car parts, car accessories, cycles and cycle accessories in the UK. Halfords is also the largest garage servicing organisation in the country.	**404** total stores 159 High Street Stores 245 Out of town superstores (with garages 136)
BOOTS OPTICIANS	One of the largest chains of opticians in the UK. Boots own brand products account for 75% of all sales.	**263** Practices
Homestyle	The business is a leading retailer of home decorating materials through Homestyle and FADS The Decorating Specialists.	**369** total stores 198 FADS 171 Homestyle
DO IT ALL	A joint venture company owned by Boots and WH Smith	**193** stores
BOOTS HEALTHCARE INTERNATIONAL	Responsible for the development and marketing of consumer healthcare products in the UK, Europe, Africa, South East Asia and Australasia. The product range includes Strepsils, Nurofen, Dequadin, Sweetex, Optrex, Mycil and E45.	14 operating businesses around the world
BOOTS CONTRACT MANUFACTURING	Develops and produces a wide range of own brand products for Boots The Chemists, consumer products for Boots Healthcare International, and numerous products under contract for other companies.	5 factories and 1 major development laboratory
BOOTS PROPERTIES	Manages the group's freehold and long leasehold property portfolio. Its development activities are concentrated in the retail sector.	**933** UK properties

Number of Employees	Turnover		Operating Profit/loss	
53,577	94	2,808.0	94	323.9
	95	2,943.8	95	349.7
	96	**3,107.6**	**96**	**384.8**
9,279	94	357.0	94	14.5
	95	377.9	95	20.5
	96	**390.5**	**96**	**22.1**
3,344	94	102.1	94	6.7
	95	119.1	95	8.3
	96	**132.3**	**96**	**10.9**
2,470	94	111.6	94	(1.2)
	95	114.6	95	(8.5)
	96	**104.9**	**96**	**(12.2)**
6,363	94	194.2	94	(10.6)
	95	185.3	95	(6.3)
	96	**170.7**	**96**	**(10.1)**
1,624	94	227.7	94	21.3
	95	203.5	95	9.8
	96	**206.7**	**96**	**(8.2)**
3,756	94	208.8	94	16.2
	95	216.0	95	17.8
	96	**239.4**	**96**	**16.7**
84	94	108.4	94	67.1
	95	98.0	95	66.8
	96	**102.9**	**96**	**68.2**

Sir Michael Angus, Chairman. Sir Michael, 66, became a director in March 1994. Previously chairman of Unilever plc, he is now chairman of Whitbread PLC, deputy chairman of British Airways Plc and a director of National Westminster Bank Plc. He was president of the Confederation of British Industry from May 1992 until May 1994.

Lord Blyth of Rowington, Deputy Chairman and Chief Executive. Lord Blyth, 56, joined the company and the board in October 1987 as chief executive, after previous appointments as group managing director of The Plessey Company and head of defence sales at the Ministry of Defence. He is a governor of London Business School and chairman of the Prime Minister's Advisory Panel on the Citizen's Charter.

D A R Thompson, Finance Director. David Thompson, 53, joined the company in 1966 and became finance director on his board appointment in July 1990. He became Retail Division finance director in 1980 and group financial controller in 1989. He is a non-executive director of East Midlands Electricity plc. He is a chartered accountant.

A H Hawksworth, TD, DL, Personnel Director. Alan Hawksworth, 60, joined the company in 1959 and became a director in 1984. He was previously director of personnel, Pharmaceuticals Division. He is a Fellow of the Institute of Personnel and Development, a Deputy Lieutenant of Nottinghamshire and the treasurer of the University of Nottingham.

***R P Wilson.** Robert Wilson, 52, became a director in December 1991. He has been with The RTZ Corporation PLC for over 25 years and became its chief executive in 1991, and chief executive of RTZ-CRA following the merger of the two companies at the end 1995.

Sir Michael Angus

Lord Blyth of Rowington

D A R Thompson

A H Hawksworth
R P Wilson*

***P J Davis.** Peter Davis, 54, became a director in May 1991. He is group chief executive of the Prudential Corporation plc and was formally chairman of Reed International plc. He spent ten years at J Sainsbury plc where he became assistant managing director with responsibility for buying and marketing operations.

***F M Harrison.** Fiona Harrison, 45, became a director in 1994. She is a director of Coats Viyella PLC and chief executive of its Fashion Retail Division which operates the Jaeger and Viyella retail chains. She was previously vice president Clairol Inc. – part of the Bristol-Myers Squibb Company.

***Sir Ian Prosser.** Sir Ian, 52, became a director in 1984. He is chairman and chief executive of Bass PLC and is a director of Lloyds TSB Group plc. He is a chartered accountant.

B E Whalan, Managing Director, Halfords. Brian Whalan, 51, joined the company in 1967 and became a director in 1995. He became director of home and leisure merchandise for Boots The Chemists in 1983, managing director of Boots Opticians in 1987, and managing director of Halfords in 1990.

S G Russell, Managing Director, Boots The Chemists. Steve Russell, 51, joined the company in 1967 and became a director in 1995. He became director of home and leisure merchandise for Boots The Chemists in 1985 and director of merchandise in 1988. In 1992 he was appointed managing director of Do It All Limited, the company jointly owned with W H Smith, subsequently re-joining Boots The Chemists and becoming Managing Director in 1995.

***Sir Clive Whitmore,** GCB, CVO. Sir Clive, 61, became a director in September 1994 after leaving the Civil Service where he was the permanent secretary first of the Ministry of Defence and then of the Home Office. He is a non-executive director of the Morgan Crucible Company PLC, Racal Electronics PLC and N.M.Rothschild & Sons Limited.

***Sir Peter Reynolds,** CBE. Sir Peter, 66, became a director in 1986. He is chairman of Pioneer Concrete Holdings and a director of Pioneer International, Avis Europe and Guardian Royal Exchange Assurance.

M F Ruddell, Managing Director, Boots Properties. Mike Ruddell, 52, joined the company in 1966 and became a director in 1984. In 1986, he became large stores director with responsibilities including merchandise and buying within Boots The Chemists. He took up his present position in June 1988. He is a non-executive director of Community Hospitals Group and deputy chairman of the Nottingham Trent University.

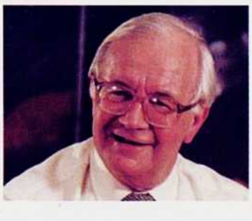
*Non-Executive Director

P J Davis*
F M Harrison*


Sir Ian Prosser*
B E Whalan


S G Russell
Sir Clive Whitmore*


Sir Peter Reynolds*
M F Ruddell




Boots The Chemists	Sales £m	% increase	Profit £m	% increase
Managing Director, Steve Russell	3,107.6	5.6	384.8	10.0

Boots The Chemists sales split	%
Healthcare	16
Dispensing	20
Beauty and personal care	39
Food and baby consumables	10
Gift	7
Photo and music	8

Boots The Chemists (BTC) achieved good sales growth of 5.6% through the continued success of its marketing, helped by the hot summer and the influenza epidemic of October/November 1995. Profits rose 10% to £384.8m.

Strategy Boots The Chemists continues to improve performance by increasing concentration on its core healthcare and beauty businesses. This is coupled with increasing levels of customer service, all within an ever improving store environment. The business is supported by high quality information driving greater efficiency and effectiveness in areas such as logistics and range management. Product range and quality are key BTC characteristics: new product development is critical. Particular emphasis continues on own brands, which account for 43% of sales. Vertical integration of product development, manufacturing and retailing bring significant competitive edge, allowing BTC to develop and put new product ideas on shelf quickly. The No7 relaunch in 1995 was an outstanding example of this.

Store network In an active year for store development, BTC opened 48 new small stores in busy central locations and three large, edge of town stores. All made good starts. Several large and small stores relocated to better premises, and there were major improvements or extensions at 13 large stores and 61 small stores. Fourteen stores received new or extended Boots Opticians. Development plans for 1996/97 include a further 40 small stores, acceleration of the edge of town programme and a new store in Dublin – BTC's first outside the UK in recent times.

Systems development BTC has a strong reputation for applying technology to improve profitability and control. New technology currently being introduced will provide even greater power. New finance systems completed in October 1995 have improved the flow of management information. Another new system, 'Sunrise', is being introduced to improve the flow of store information.

No7 is No 1 The repositioning of Boots market leading No7 range in 1995 proved to be the most successful cosmetics relaunch in the UK. Developed and manufactured by Boots, the new range took the No7 brand further upmarket – lifting sales by 20%.

Computers in every BTC store will simplify planning of staff rotas, give each store information on its sales and financial performance including comparisons with other stores, enable e-mail communication throughout BTC and provide a platform for computer based training on demand. 'Sunrise' is a three year, £30m investment: by the year end it had been installed in 222 stores.

These and other systems are enabling BTC to tailor the format of individual stores more closely to local needs and opportunities. As uniformity becomes outdated and unnecessary, BTC is developing a variety of distinctive formats to take advantage of this flexibility.

Pharmacy Dispensing sales are the heart of BTC's business. The authority of its pharmacists and their expert advice secure the trust and authority that the Boots brand commands. Pharmacies attract customers, bringing additional sales opportunities and giving BTC clear differentiation from supermarkets. Pharmacy sales remained strong in 1995/96: prescriptions dispensed rose 3.4% in number and 8.3% in value, giving BTC an increased market share. BTC has continued its active support of the Royal Pharmaceutical Society's efforts to develop the pharmacist's role in providing healthcare advice.

Healthcare Over the counter medicines and general chemist sales rose 7.4%. Sales of vitamins and supplements grew 9%, boosted by the launch of the unique Boots Daily Supplement System range of products tailored to specific age or lifestyle needs. Consumer interest in alternative therapies continues to grow, and sales of complementary medicines in BTC rose 23%.

Cough and cold remedies performed well in the winter, with sales up 6.5%, while the hot summer and the trend towards long haul travel helped sales of anti-malarials, insect repellents and footcare preparations. Sales of first aid products were boosted by the introduction of a new range of first aid kits.

In the chemist area, family planning product sales grew 15.6%. BTC's 'Active and Independent' is the first high street service offering both retail and mail order sales of personal independence products. This is a market with growing potential as the population ages and the changing pattern of national health provision encourages more care and rehabilitation in the home.

Beauty and personal care Extensive new product development and aggressive promotions produced sales growth of over 8%. BTC remained the leader in the suncare market. Boots Soltan range accounts for almost half of BTC suncare sales.

The relaunch of the entire No7 cosmetics range in February 1995 – the single most ambitious range launch BTC has undertaken – had a powerful effect, lifting No7 sales by over 20% and attracting new customers into BTC. Capitalising on this, BTC also stepped up its representation of premium cosmetics brands and enhanced the beauty halls in major branches. As a result, overall sales of premium cosmetics rose 24%. Fragrance sales rose 13%, helped by new product launches, exclusive Christmas gift sets and considerable promotional activity.

Healthy market share Boots continues to increase its own brand share of the over the counter medicines market. A growing number, including Nirolex and our range of children's medicines, are unique.

Power of the brand Over almost 120 years, Boots has become one of the best known and most trusted consumer brands in Britain. It is strongly identified with healthcare and personal care, expertise and quality, convenience and service, and breadth and depth of choice.

Gaining sales organically Botanics is an innovative range of skincare and haircare products, developed by Boots Contract Manufacturing to meet growing demand for sophisticated formulations using natural ingredients. Launched in July 1995, it has already helped Boots to increase market share.

Novelty continues to be a vital ingredient in beauty and personal care retailing. Investment in product development, relaunches and repackaging has been a key to BTC's competitive strength for many years. Notable successes during 1995/96 were the Botanics skincare and haircare ranges and spa bathcare – value for money products that meet today's consumer demand for high-tech formulations with plant-based ingredients.

Food New products in the lunchtime business and improvements in both Shapers and Boots branded products produced a sales increase of 6%. Drinks, crisps and snacks benefited from the hot summer, and sandwich alternatives such as rolls and pastries performed particularly well.

Changing attitudes towards meal replacements and diabetic foods resulted in some decline in these areas, although they remain a source of advantage in attracting shoppers into BTC stores.

Baby The retail multiples have made core baby products a highly price competitive market. Despite this, BTC retained market share by developing and launching innovative new products such as Boots High Performance Nappies and the Boots International range of baby foods, and by pricing competitively where this would improve sales performance.

Gift, photo and music Sales remained virtually flat in value, although aggressive promotions on Christmas lines and Boots brand film achieved some volume increase. However, BTC is now treating gifts as a year round purchase and a significant opportunity. The gift market is growing and the business aims to increase its small share by meeting the demand for reliable, accessible, wide choice. It is focusing on good quality and value in areas where BTC is particularly well regarded: kitchenware, children's gifts, greetings and stationery. In photographic processing BTC has promoted its services strongly against growing competition from onsite processors and is developing new products that will give it additional competitive edge.

Staff training BTC continues to improve staff training and development, which are vital in differentiating Boots service to customers. In 1995 it launched its Selling The Boots Experience programme, which will involve all staff in annual customer service training. BTC's excellence in training and development was recognised in October 1995 when it became the largest organisation to be recertified under the Investors in People scheme, three years after its original certification.

Disposable income
Capitalising on Boots leadership in the films and processing market, the Hong Kong buying team sourced a single-use disposable camera from a major manufacturer. It helped lift own brand sales by 50% in 1995/96 to take a large share of the UK disposable camera market.

Halfords	Sales £m	% increase	Profit £m	% increase
Managing Director, Brian Whalan	390.5	3.3	22.1	7.8

Halfords sales split	%
Cycles and cycle accessories	28
Car parts	15
Auto accessories, tools and audio	47
Garage servicing	10

Halfords increased sales by 3.3%, gaining share in all its principal markets: car parts and accessories, cycles and car audio. This was a sound performance given the lack of growth in these markets – the UK cycle market actually dipped 4% – and the hot summer, which reduced sales of car care products. Retail profit growth was held back by investment in new warehousing capacity, but reduced losses from the garage business resulted in profits up 7.8% overall to £22.1m.

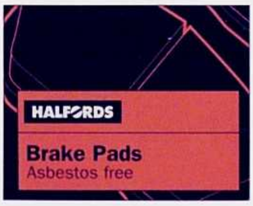
Strategy Halfords has no direct competitor. The company's strategy is to expand aggressively by repositioning itself from high streets to superstores, meeting consumers' preference for wide choice and their view of Halfords as a destination store in its own right. Halfords is working to exploit the potential for own brand products, which is comparable to that in Boots The Chemists: own brand products currently account for 35% of sales and this will continue to rise.

Store portfolio During the year Halfords opened 22 new superstores and closed 17 high street branches, at an overall revenue cost of £2.7m. The pace of superstore openings was slower than intended, because of delays in the local government planning process caused by new planning guidelines. Nevertheless, by June 1996 the business expects to have 250 superstores and 154 high street shops.

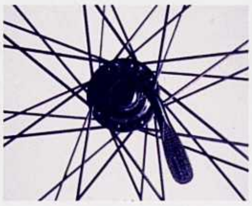
Retail sales New store layouts introduced progressively over the past three years have given a clearer indication of Halfords' three main product categories, Bike Shop, car parts and auto accessories. Bike Shop, which completed this upgrade, was a particular success – lifting sales 13%. Over 50% of sales now come from Halfords' own ranges, Apollo and Carrera, which have a growing reputation for quality and value. A major drive on car batteries has made Halfords the market leader, increasing its share by 50% in three years. Car audio sales rose 15% and Halfords is upgrading its products to include leading, higher margin brands.

Garage business Continued effort to reduce costs and gain higher margin work reduced garage losses by 29% to £6.5m. The agreement under which Halfords garages act as support centres for Daewoo cars is proving successful, and 12 superstores now have Daewoo showrooms onsite.

Distribution Re-engineering of the Redditch warehouse, to be completed in mid-1996, will provide the 75% increase in distribution capacity needed to support planned business growth.



Growing in parts In 1996 Halfords launched the first of a range of own brand servicing parts such as brake pads and filters. By providing an assurance of high quality it sees a major opportunity to increase own brands' contribution to sales – currently 35%.



Big wheel in bikes Halfords has raised its share of the cycle market by 50% in 18 months. Its own cycle brands, Apollo and Carrera, have become market leaders and it also leads the high margin cycle accessories and clothing market.

Biggest in Europe Halfords is the largest auto parts and tools retailer and the largest cycle and accessories retailer in Europe. Established for over 90 years, the Halfords brand is as strong as the brands it stocks.

Boots Opticians	Sales £m	% increase	Profit £m	% increase
Managing Director, Martin Bryant	132.3	11.1	10.9*	31.3

*before exceptionals

Boots Opticians sales split	%
Spectacles	69
Contact lenses	12
Other	19

Despite intense competition Boots Opticians increased sales by 11.1% and profits by 31.3% to £10.9m. Profitability was enhanced by the continued development of own brand products. A court ruling against HM Customs & Excise in a case brought by the ophthalmic profession added an exceptional £12.8m to profits in 1995/96.

Strategy Boots Opticians aims to become market leader in optical retailing, making effective use of the Boots brand to build a value adding business. Branches in Boots The Chemists stores complement the healthcare image of BTC and enable more productive use to be made of floor space.

Practice reconfiguration The business is refitting its practices, tailoring each one to its local market in displays, ambience and technology. Where appropriate, it is installing state of the art eye testing machines that release floorspace, allow practices to install more dispensing rooms and enable qualified ophthalmic opticians to concentrate on more complex tests. During the year, 36 refits brought the total of reconfigured practices equipped with the new technology to 148 out of 263.

Competition Although market growth remains low, all the major chains of optical retailers have expansion plans and competition is intense. The four national chains now account for over 50% of the market. This is putting pressure on margins and creating a tight labour market for qualified staff. Boots Opticians has responded to competition with aggressive promotion and, aided by the value for money positioning of the Boots brand, has increased its market share.

New products The launch of several important new products helped to sustain own brand sales at 75% of total turnover. They included a high-index lens, Ultra Thin; Boots Easiclens solutions, launched in association with Boots The Chemists; and Daily disposable contact lenses. These are manufactured using revolutionary technology and have proved particularly successful – supported by TV promotion, unit sales topped three million by the year end. Sales of Boots unique Integra 4 in 1 lenses grew by 20% and now account for 17% of all lens sales.

People High quality staff are vital to Boots Opticians' drive for market leadership in optics. Significantly, 47% of its pre-registration optometrists qualified at the first attempt during the year, compared with a national average of 29%. Boots Opticians' continuing education (CE) programme has been accredited by the College of Optometrists, making it the largest provider of accredited CE material to UK optics professionals.

Prescription Ultra-thin Integra 4 in 1 lenses are part of Boots Opticians' own brand lens range, which now covers virtually all lens types. From a standing start in 1993, own brands now account for over 85% of Boots Opticians' spectacle lens sales.

We have contact Boots Opticians' own brand daily contact lenses, launched in 1994, was the first on the UK market. Own brand products make up 95% of Boots Opticians' contact lens sales.

A G Stanley	Sales £m	% increase	Loss £m	% increase
Managing Director, Peter Roche	104.9	(8.5)	(12.2)	43.5

A G Stanley sales split	%
Paint and wallcovering	70
Co-ordinated fabrics and decor products	30

Homestyle and FADS stores had another difficult year. Their market continued to be affected by depressed housing sales and overcapacity in DIY retailing – compounded by a hot summer which reduced demand for decorating products. Sales were down 8.5% overall, although the second half was significantly better than the first. Losses increased to £12.2m from £8.5m, partly due to revenue investment in new systems and procedures.

Strategy The new management team has been introducing more effective marketing and store operations structures and developing separate brand identities for Homestyle and FADS, applying experience and skills drawn from elsewhere in the Boots group.

The high street FADS network is being rationalised to exclude unprofitable stores and will specialise in paint and wallcoverings. Homestyle is focusing on retail parks and developing exclusive ranges of co-ordinated fabrics, wallcoverings and other decor products. Improved training has increased staff's ability to give expert advice and merchandise space in stores is being reorganised to create a more balanced offer. Further refinements have been tested in 24 stores, supported by a major advertising and promotion campaign. Results so far have been encouraging.

Store development The business closed 26 unprofitable stores during the year and opened eight new Homestyle stores on retail parks to which it was already committed. Sixteen clearance stores were established.

Marketing and merchandise Investment in people, processes and systems continues for both Homestyle and FADS. Market share has increased in a number of key sectors and the whole product offer is now design led. Awareness of Homestyle has grown significantly from a low base – supported by a significant increase in advertising and promotion expenditure – and customers are responding positively to improved store layouts and merchandising.

Systems The business has introduced new systems for store ordering and merchandising that give greater consistency of display and layout across stores. A new £3.5m electronic point of sale system is being rolled out and was in 140 stores by the year end. Implementation throughout the chain will be complete by March 1997.

Co-ordinated progress
A G Stanley is one of the UK's leading retailers of wallcoverings. It is currently extending Homestyle's exclusive ranges of co-ordinated wallcoverings and decor products, which proved popular in 1995.

Do It All	Sales £m*	% increase	Loss £m*	% increase
Managing Director, Ken Piggott	170.7	(7.9)	(10.1)	60.3

*represents the group's share

Do It All sales split	%
Decorative	53
Workshop	47

Like A G Stanley, Do It All (DIA) suffered from the depression in the housing market, overcapacity in the DIY market and the summer weather – although the fine weather boosted sales of outdoor living products. Sales at £170.7m decreased by 7.9% with Boots' share of the loss at £10.1m, £3.8m higher than the previous year.

Strategy DIA aims to achieve differentiation in a competitive market by offering a full range of quality products and exceptional value, supported by outstanding service to help customers plan, purchase and perfect the result they want. To differentiate its offer further, DIA is progressively introducing a wider range of own brand and exclusive products.

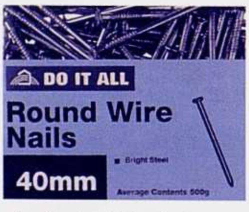
DIA's substantial investment in staff development was recognised in March 1996 when it achieved certification under the Investors in People scheme.

Store development During the year, DIA completed over 70 store refits in the new project focus format. This has been well received and has improved sales by over 1% in these stores. The business disposed of 16 unprofitable or closed stores and also reduced the size of the 20 largest stores, which resulted in a substantial increase in sales productivity.

Logistics DIA's new distribution centre is now fully operational, holding 12,000 products from 210 suppliers which currently account for over 70% of sales.

Merchandise Development of the DIA brand continued through the year with own brand sales representing 17% of turnover. Sales grew in doors and door furniture, tools, decorative timber, fire security, paint, decorating accessories and plumbing. A relaunch of the wallcoverings area was successfully completed in September 1995, and 48% of the designs are now exclusive to DIA.

Customer service DIA is committed to offering its customers exceptional service when and where they want it. Highly trained and skilled customer service staff are now in place in all project focus stores, and the business has won several accolades for its quality of service, including a commendation in the Daily Telegraph/BT Customer Service Awards.



Clearly the right choice
As part of its project focus approach, Do It All is paying particular attention to the labelling and display of products so that customers can identify their size and application clearly. Do It All is working to extend its own brand ranges, which currently account for 17% of sales.

Boots Healthcare International	Sales £m	% increase	Loss £m
Managing Director, Barry Clare	206.7	1.6	(8.2)

Boots Healthcare International major brand sales £m	**1996**	1995	% increase
Nurofen	**36.4**	27.9	30.6
Strepsils	**47.5**	39.4	20.6

Boots Healthcare International (BHI) sales rose 1.6% and the comparable growth rate was 12.3%. However, heavy investment for the longer term in new products and marketing resulted in a £8.2m loss compared with a £9.8m profit in the previous year.

Strategy BHI aims to build strong brands with significant long term value in the self-medication market. This market is expanding, driven by consumer demand and governments' desire to constrain public healthcare spending. BHI has played a leading role in influencing registration authorities to approve products for self-medication – particularly in Europe, where the market is expected to be worth £12bn by the end of the decade.

Marketing Over the past two years BHI has built a substantial new product development and strategic marketing team. This team consists of over 100 specialists from major OTC, ethical pharmaceutical and consumer companies worldwide, who have joined new product development and marketing specialists from within the Boots group. The marketing and development teams are co-located, enhancing BHI's competitive advantage, which it believes is the key to future market leadership.

BHI's core brands performed well in the year. Nurofen worldwide sales grew by more than 30% and Strepsils grew by more than 20%. Nurofen retained its market leadership in the UK, where it is now available in grocery outlets.

New products BHI invested over £74m in developing and marketing new products, up from £56m in the previous year. The 17 major new product launches included a new generation Strepsils product, launched as Strepsils Dual Action in the UK and Strepsils Plus in Australia, and major consumer launches for Nurofen in Australia and Spain. Nurofen won a significant market share within two months of its launch in Australia, and became market leader within months of launch in Slovakia and the Czech Republic. Strepsils, already the leader in more than 20 markets, was launched in Greece, Bulgaria and Russia.

Restructuring BHI continuously appraises its presence and business performance in specific markets. As a result of this process, it sold BHI Kenya for £3.6m and decided to cease manufacturing in Australia by the end of 1996. In future, Australia will be supplied primarily from the UK. BHI's Thailand facility is being developed to serve the Pacific area.

Throat suites Launched in 1959, Strepsils are now sold in over 120 countries. In most they are the No1 or No2 brand. BHI continues to enter new markets – including Eastern Europe in 1995 – and to introduce line extensions such as Strepsils Dual Action.

Easing the pain Developed by Boots in the 1960s and first retailed in 1983, Nurofen is the most successful product switched from UK prescription to OTC sales. It is brand leader in several countries, and BHI is now extending Nurofen into markets such as cold and 'flu remedies.

Boots Contract Manufacturing	Sales £m	% increase	Profit £m	% increase
Managing Director, John Watson	239.4	10.8	16.7	(6.2)

Boots Contract Manufacturing sales split	%
Boots The Chemists	59
Boots Healthcare International	14
Third party contracts	27

Boots Contract Manufacturing (BCM) increased sales by 10.8%, but operating profit fell 6.2% to £16.7m. The principal factors were increases in packaging and raw material costs, depreciation and increased revenue investment in marketing and information technology.

Strategy BCM aims to build on its European leadership in supplying private label and contract manufactured cosmetics, toiletries and healthcare products. It is well positioned to access the fast growing private label toiletries markets across Europe. As well as supporting Boots The Chemists (BTC) and Boots Healthcare International (BHI), it intends to exploit its skills through long term supply partnerships with major European and multinational companies.

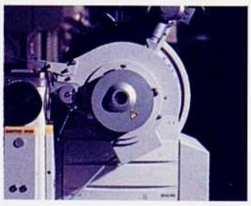
Sales The growth in sales was driven by substantial increases in work for BHI and third parties. Sales to BTC grew more slowly, due in part to stock rebalancing and to discontinuation of some small, unprofitable lines. Sales to the former Boots Pharmaceuticals, now part of BASF, declined significantly as products were moved to BASF factories in Europe. Increased sales and marketing efforts to target key third party customers achieved good growth with UK and European grocers as well as several major brand owning companies.

Capital investment BCM continues to invest in bottle blowing capacity, which not only reduces costs but also helps to improve flexibility at times of peak demand for seasonal products. During the year it also installed new toiletries and blister packing lines, new facilities for manufacturing and packing Sweetex and a new facility for manufacturing sterile products. A £19m energy centre serving Boots' main Nottingham site is currently being commissioned.

Acquisitions In December 1995 BCM acquired companies in France and Germany, with net assets of £5.7m, from Croda International PLC. Both companies manufacture colour cosmetics and the French operation also produces toiletries. They provide a larger customer base, improved distribution in continental Europe and additional manufacturing capacity.

People BCM's commitment to staff training and development was recognised during the year by Investors in People certification and a significant number of staff gaining National Vocational Qualifications. Introduction of teamworking in all manufacturing areas has brought significant increases in productivity.

An eye for innovation BCM developed, launched or modified some 1,900 products in 1995/96. Its £29.5m capital investment during the year included equipment such as this video microscope, used to study hair in the development of shampoos – where Boots has a major UK market share.



An eye for quality BCM is one of Europe's largest suppliers of private label cosmetics and toiletries. It manufactures around 5,200 lines, 55% of them for Boots. Its new quality control laboratory uses advanced technology such as this x-ray diffraction machine to ensure high standards and to reduce costs.

Boots Properties	Sales £m	% increase	Profit £m	% increase
Managing Director, Mike Ruddell	102.9	5.0	68.2	2.1

Boots Properties store portfolio	
Single units	889
Multi-tenanted properties finished and in progress	44

Total investment at £79.7m fell from last year's record level in a slack property market, despite a 45% increase in development spending. Net rental income continued to increase and at £66.4m was up 2%. Boots Properties is now the second largest profit generator in the group.

Strategy Boots Properties owns and manages freeholds and long leaseholds on over 900 of the company's 2,500 shops. It also applies its property development and management skills in the wider retail property market. It aims to create value for shareholders through sound investment and to give Boots' retail businesses readier access to the locations they seek. These businesses represent a formidable source of data on the retail property market. Boots Properties has a strong research capability, and its unique model for rental growth forecasting across UK town centres provides valuable competitive advantage in assessing opportunities and managing its portfolio.

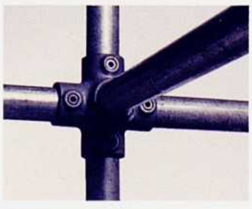
Investment Although acquisition of investment freeholds slowed, due to a lack of suitable property at the right prices, the business added property worth £32m to its portfolio and invested £45m in development schemes to be retained.

Rental income from third parties continued to increase. This reflected further growth through purchase and development in the portfolio of multi-tenanted blocks of property – such as retail parks and high street schemes – where a Boots group retailer is one of several tenants. These investments were valued at almost £180m at the year end, and the business intends to continue investment in this area.

Development In an active year for development, Boots Properties opened new shopping centres in Chorley and Caerphilly; both have brought new life to town centres, proving popular with shoppers and retailers alike, and are virtually fully let. It also completed a small retail park in Gloucester and realised £1.8m in profit on a retail park development in Swindon, commissioned by the Prudential.

In April 1996, Boots Properties opened its Harrow shopping centre, another is nearly complete in Brecon, and a third is underway in Hastings. It continues to seek development opportunities with potential for Boots retail businesses.

People To deliver reliable investment returns, Boots Properties depends on employing high calibre people and developing them to their full potential. Its commitment to training and development was recognised during the year by the award of Investors in People certification.



Developing profitable business During the year Boots Properties spent £21m in acquisitions involving Boots The Chemists – a strong covenant with a secure income flow. BTC has also taken space in each of the two major shopping centres completed this year, attracting other high quality tenants to the schemes.

Employees The way Boots recruits, develops, manages and motivates its people directly affects business performance.

The company maintains its high level of investment in training. Commitment to training and the quality of programmes has been recognised by national Investor in People awards for Boots The Chemists, Boots Contract Manufacturing, Boots Properties and Do It All. During the year, over 21,000 employees were registered for National Vocational Qualifications, making Boots the country's largest user of NVQs.

Boots is increasingly successful in retaining the skill base. Investment in training leads to reduced staff turnover. In Boots The Chemists, three quarters of store staff who had taken maternity leave returned to work. The company supports staff retention through a variety of family-friendly policies, including flexible working, term-time working, job shares and career breaks.

One of the most important strategic aims is to maximise the affiliation benefits that each business gains from being part of the wider group. The transfer of people is one of the most effective ways of disseminating ideas and best practice from business to business, creating more rounded managers and enriching their careers in the process. The company is working to increase the number of transfers. During the year, over 70 senior managers transferred between businesses, roughly a third on secondment and two-thirds in permanent career moves at levels up to and including business unit managing director. They represented almost 9% of available senior managers, compared with under 3% two years earlier.

Another valuable way to build and share managers' experience is through participation in multi-business project groups. Almost 16% of senior managers took part in these in the year, compared with under 2% three years earlier.

Boots aims to achieve clear and consistent two-way communication throughout the organisation. To monitor its effectiveness, MORI was commissioned to conduct the first groupwide employee attitude survey in November 1995. The results will guide future personnel activity and provide benchmarks for subsequent research. Significantly, MORI found that the proportion of staff claiming to understand the business and its objectives was exceptionally high compared with other organisations.

As well as communicating through line management and the award-winning staff news magazine and videos, the company has a well-established formal structure of staff councils. This complements the relationships with the trade unions and is a key reason for the good industrial relations climate. During the year, the company updated the constitutions of several councils to reflect business and employee needs more accurately.

INVESTOR IN PEOPLE

POSITIVE ABOUT DISABLED PEOPLE

Community Part of the company's purpose is to sustain and enhance its reputation as a well, managed, ethical and socially responsible business, which is believed to be a significant factor in its commercial success.

Boots total contribution to the community through charitable and educational donations, charitable sponsorship and gifts in kind was £4.1m.

While initiating much of the charitable and community work, the company continues to respond to requests through Boots Charitable Trust, which is wholly funded by the company. The trust paid £450,000 to charitable and community organisations, including top-up donations to employee fundraising for a wide variety of causes. It marked its 25th anniversary by establishing a £25,000 fund to support a schools community activities programme for Nottinghamshire and revised its funding criteria: it now gives priority to charities benefiting Nottinghamshire, although it will still consider appeals from organisations in areas outside the county where the company has a major presence and which are supported by a strong recommendation from the local business representation.

The Boots recycling project increased significantly the volume of surplus stock distributed to local, national and international charities. Most of this stock consists of special offer remainders, product testers and imperfect goods returned from stores. The imperfect goods were sorted and repaired by offenders under community service orders, through a long standing workshop partnership with Nottinghamshire Probation Service.

Boots continued to sponsor the Royal Philharmonic Orchestra in its Nottingham residency and to play an active and influential role in the orchestra's extensive community outreach programme. A new partnership with Nottingham Playhouse sponsored schools and community arts education workshops, and work with children and young people in a programme focused on the development of good citizens.

The company is among the UK leaders in recognising the needs of staff who are carers – an estimated 11,000 are caring for elderly or sick relations, friends or neighbours – and this will inevitably increase. Nationally, Boots The Chemists' partnership with the Carers' National Association enabled the charity to establish a much higher profile and reach a much greater number of carers needing advice and support.

Through the continuing partnership with the British Association of Early Childhood Education, four very successful Under-Fives Fairs promoted services for young children in Airdrie, Cramlington, Nottingham and Plymouth. Each was followed by a series of educational workshops for parents.

The Education Liaison Unit continues to work with the education sector on a wide range of activities relating to issues of concern to Boots. This work included projects on anti-racism, the development of Boots Opticians' curriculum support materials and skin cancer. These are intended to help junior school teachers throughout the country in science, technology, art and health education.

For the second year running, staff from Do It All won recognition in the Home Office sponsored Employee in the Community Awards for their personal contributions to local communities.

Environment By consistently setting high environmental standards, the company meets customer expectations, enhances its reputation as a good corporate citizen and, in many cases, saves costs.

In 1996 Boots published a revised environmental policy statement, updated to reflect recent environmental concerns and devolving direct accountability for environmental matters to the businesses. This is integrated into business management systems through a framework embodying four key principles:

- Reducing adverse environmental impacts arising from the company's activities
- Ensuring efficient use of materials and energy
- Encouraging reuse and recycling
- Incorporating the principle of sustainable development.

These principles are being incorporated into all aspects of the company's operations. Unnecessary and undesirable materials are being designed out of products. Waste of residual production bulk and consumption of process cooling water are being cut. Warehouses and stores are making increasing use of reusable and returnable packaging. Offices are reusing and recycling paper and toner cartridges, and making more use of e-mail. Boots is also making improvements further up the supply chain through discussions and co-operation with suppliers.

The company has pledged support to the government's Making a Corporate Commitment energy efficiency campaign. The new £19m energy centre at the Nottingham head office site, due for completion later in 1996, will significantly reduce fuel use and emissions. Halfords' Energy Best Practice programme has returned average savings of 20% at the 104 stores now fitted with electronic heating controls. Boots Contract Manufacturing has developed a novel production technique, now applied to 18 new products, that saves energy and cuts water consumption by avoiding the need for process heating and cooling.

Do It All's innovative 'paint trade-in' has successfully tested the feasibility of reprocessing customers' surplus paint – a new opportunity for local authority recycling facilities. Of 55,000 paint containers collected, 22,000 were recycled, paint from 10,000 was reprocessed and 5,000 contained enough paint to be used in community decorating schemes.

Boots The Chemists (BTC) reintroduced its greeting card recycling scheme, collecting 17 million cards in the two months after Christmas. The proceeds will help fund tree planting in community forests throughout Britain.

In February 1996, Do It All and Boots The Chemists became founder members of the World Wide Fund for Nature's 1995 Plus Group, pledging to source timber and wood products only from forests independently certified to the international standards of the Forests Stewardship Council by the year 2000. Do It All achieved 95% of timber sourced from 'known, well managed forests' by the end of 1995, with Boots The Chemists meeting fully the 1995 target.

To ensure that Boots maintains the momentum generated by the revised environmental policy, it has established a new Environmental Working Party which includes senior managers nominated by the managing director of each business. It will build on the excellent support of enthusiastic and committed staff to ensure that the company makes continued progress.

The Boots Difference Success over the long term is not easily achieved. An important factor in Boots sustained growth over recent years was our decision to adopt a management approach focused on creating shareholder value. Now ingrained in the culture, directly influencing everyday decisions at all levels, value based management is enabling us to take maximum advantage of the strengths that make Boots stand out.

- **Powerful own brands** that are leading brands
- **A strong customer relationship** built over many years
- **A quality property portfolio** that widens our understanding of high street and out of town shopping
- **Motivated and trained people** – at all levels
- **Vertical integration,** giving us control over rapid product development, manufacturing, distribution and retailing
- **Innovative information systems** for better informed decisions

By understanding these strengths and sharing best practice across the group – particularly through investment and transferring experienced people – we benefit all our businesses and make the whole stronger than its individual parts.

Powerful own brands Own brands play a significant part in attracting and retaining customer loyalty. Our own brands are respected brands in their own right. Some, like No7 and Soltan, are market leaders. Boots The Chemists launches some 1,500 new, repackaged and reformulated lines a year, concentrating on original ideas that add real value. Own brands account for 75% of sales at Boots Opticians, 43% at Boots The Chemists and 35% at Halfords.


22
Halfords

Strong customer relationship Our relationship with our customers has a long history, notably at Halfords and Boots The Chemists. Collectively, our retail stores are readily accessible by most of the UK population, and offer a level of advice, information and service which have established a solid bond of trust.

Quality property portfolio Maintaining the quality of the locations from which we trade is key to our success. We have some 2,500 stores around the country in town centres, suburbs and edge of town sites, of which we own over 900, either individually or as part of a multi-tenanted block of property. This means that we are particularly well placed to monitor and understand evolving shopping patterns. We review continuously the needs of shoppers and the behaviour of competitors, and adapt our property portfolio accordingly. This uniquely detailed knowledge of the ever changing retail market place increases our ability to make well judged property development and investment decisions.

Boots Properties new shopping centre development in Harrow.

Motivated and trained people Boots long standing reputation as an enlightened employer helps attract high calibre people – and enables us to demand high standards of performance, encouraged by incentives and rewards. In 1995/96 three of our businesses were certified under the Investors in People scheme, and a fourth was re-certified. We spend £25m a year on training and are the largest participants in the National Vocational Qualifications scheme with some 21,000 staff currently working for NVQs. By actively encouraging people to transfer between businesses, our management development programme gives them broad experience and perspectives – and aids the spread of ideas and best practice throughout the group.

Three Boots achievers (left to right) Chris Hemmerdinger, Boots Opticians. Debbie Hughes, Steve Reed, Halfords.

Vertical integration Boots customers benefit from the way we identify market gaps and the speed with which we develop and bring products to the market. We developed and launched the Boots The Chemists Natural Collection range in just five months – quickly building a brand worth over £65m a year which continues to evolve. Vertical integration creates additional revenue opportunities: Boots Healthcare International products are sold in 100 countries world-wide and 27% of Boots Contract Manufacturing's production is for third parties with sales of some £65m last year.



Innovative information systems We use technology to gain greater understanding of our business and our customers in order to become more responsive and profitable retailers. Our EPOS systems – Boots The Chemists is the largest in Europe, with 13,500 tills – provide outstanding data capture and with expert direct product profitability systems provide significant depth of analysis. Our systems are integrated from till to warehouse and we are extending the links to production. Progress is continuous in all our retail operations. In Boots The Chemists, current developments are bringing tailored performance data, staff planning and computer-based training on demand to every store.

Skill

ACCOUNTING-CA
FILLING UP-ST
RI-STORE
E-CHEM/PHOTO/
E-CPU1

Contents

The company has complied fully with the operative provisions of the code of best practice published by the Cadbury Committee on the financial aspects of corporate governance.

Board Structure
Details of the board of directors are shown on pages 12, 13 and 49.
Details of the composition and the main responsibilities of the four principal board committees are as follows:

Board Audit Committee
Sir Ian Prosser
P J Davis
Sir Peter Reynolds
Sir Clive Whitmore
R P Wilson

The main responsibilities of the Board Audit Committee are:
– to review and advise the board on the interim and annual financial statements.
– to review with the external auditors the nature and scope of their audit and the results of that audit, any control issues raised by them and management's response.
– to make recommendations as to the appointment and remuneration of the external auditors and any question of their resignation or removal.
– to review the scope and results of the internal audit programme and the adequacy of the resources of the internal audit function and to receive an annual report on internal audit matters.

Board Remuneration Committee
Sir Michael Angus
P J Davis
F M Harrison
Sir Ian Prosser
Sir Peter Reynolds
R P Wilson

The main responsibilities of the Board Remuneration Committee are:
– to determine the remuneration of the executive directors, having regard to their performance.
– to determine the terms and conditions on which executive directors are employed by the company, including the provision of service contracts with them and pension arrangements for them.
– to approve incentive bonus schemes applicable to executive directors and to authorise payments in accordance with such schemes.

Board Nominations Committee
Sir Michael Angus
Lord Blyth of Rowington
P J Davis
F M Harrison
Sir Ian Prosser
Sir Peter Reynolds
Sir Clive Whitmore
R P Wilson

The main responsibility of the Board Nominations Committee is to consider and make recommendations to the board about the appointment of directors, the standing for re-election of directors and the structure and composition of the board generally.

Board Social Responsibilities Committee
P J Davis
A H Hawksworth
F M Harrison
Sir Clive Whitmore

The main responsibility of the Board Social Responsibilities Committee is to keep under review the company's policies and practices in the areas of social responsibility including those relating to health, safety, the environment, equal opportunities, race relations and employment of the disabled.

Internal Control

The directors are responsible for the group's system of internal financial control. These controls are established in order to safeguard the group's assets, maintain proper accounting records and ensure that financial information used within the business or published is reliable.

The key elements of these controls are as follows:

– Members of the board have responsibility for monitoring the conduct and operations of individual businesses within the group. This includes the review and approval of business strategies and plans and the setting of key business performance targets. The group has a formal and comprehensive process for the determination of business strategies and this process is co-ordinated and monitored by the group centre. The executive management responsible for each business are accountable for the conduct and performance of their business within the agreed strategies.

– Business plans provide a framework from which annual business budgets are prepared. These budgets form the basis of a group budget which is approved by the directors. Actual results of each business are reported monthly against these budgets, along with updated half year and full year forecasts. In addition, the performance of the businesses against strategic targets is reported. These results are consolidated, appraised and communicated to the board. As part of the appraisal process, business activity, performance and control are monitored and assessed by the group centre.

– The company has clear requirements for approval and control of expenditure. Investment decisions involving capital or revenue expenditure are subject to formal detailed appraisal and review according to approval levels set by the board. Significant expenditure of this nature requires approval by a director or the board. Performance reviews are undertaken by the businesses on completion of investments and the outcome of these reviews is monitored by the board. Operating expenditure is controlled within the annual budgeting framework. Approval levels for such expenditure are determined by the individual businesses.

– There are clear procedures for monitoring the system of internal financial control. The audit committee meets at least three times a year and its responsibilities are outlined on page 38. It receives reports from the internal audit function on the results of work carried out under an annual risk focused internal audit plan and from the external auditors. It also requests the attendance of business management, as required, to report on controls relating to specific business activity. Internal audit also facilitate an annual process whereby businesses provide certified statements of compliance with internal financial controls, which are supported by summaries of key control activities and an assessment of significant risks and exposures.

On behalf of the board, the audit committee has reviewed the effectiveness of the system of internal financial control. The review revealed that reasonable steps have been taken to ensure that there is a system of internal financial control which is appropriate for a group of this size and diversity. It should be recognised that any such system can, however, provide only reasonable, and not absolute, assurance against material misstatement or loss.

Going Concern

Having made appropriate enquiries, the directors are satisfied that the company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Auditors' Report on Corporate Governance

In addition to our audit of the financial statements, we have reviewed the directors' statements on page 38 and this page on the company's compliance with the paragraphs of the Code of Best Practice specified for our review by the Listing Rules. The objective of our review is to draw attention to non-compliance with those paragraphs of the Code which are not disclosed.

Basis of opinion We carried out our review in accordance with Bulletin 1995/1 'Disclosures relating to corporate governance' issued by the Auditing Practices Board. That bulletin does not require us to perform any additional work necessary to express a separate opinion on the effectiveness of either the company's system of internal financial control or corporate governance procedures, or on the ability of the group to continue in operational existence.

Opinion With respect to the directors' statements on internal financial control and going concern on this page, in our opinion the directors have provided the disclosures required by paragraphs 4.5 and 4.6 of the Code (as supplemented by the related guidance for directors), and such statements are not inconsistent with the information of which we are aware from our audit work on the financial statements.
Based on enquiry of certain directors and officers of the company, and examination of relevant documents, in our opinion the directors' statements on page 38 and this page appropriately reflect the company's compliance with the other paragraphs of the Code specified for our review.

KPMG
Chartered Accountants
Registered Auditors
Birmingham
5th June 1996

Role of the Remuneration Committee
The Board Remuneration Committee, consisting of the chairman, who chairs the committee, and five non-executive directors as shown on page 38, is responsible for determining the remuneration, terms and conditions and bonus schemes for the executive directors, having regard to performance. The board sets the level of non-executive remuneration by reference to other leading companies. The company complies in full with Section A and has given full consideration to Section B of the best practice provisions annexed to the Stock Exchange listing rules following the report from the study group on directors' remuneration chaired by Sir Richard Greenbury.

Remuneration policies
In determining remuneration policies, the committee has given full consideration to the provisions set out in the code of best practice. Remuneration policies for the executive directors and the senior management team are aligned with the board's governing objective, which is to maximise the value of the company for the benefit of shareholders in terms of total shareholder return covering share price movement and gross dividends paid. Executive bonuses are seen as a means of reinforcing these priorities and rewarding executives for their achievement.
The practice of granting executive share options has ceased.

Remuneration policies are based on the following foundations:
Pay levels Executive director salaries are positioned at competitive levels in the light of independent assessment of market practices. Bonus schemes provide an opportunity for executives to receive additional rewards if, and only if, business performance reaches specified objectives.

Linkage with business strategy The way that performance is measured for executive directors flows from, and is consistent with, business strategy and therefore a significant element of an executive director's bonus is tied to generating long term returns for shareholders which compare well with those of other leading companies.

The role of equity Share ownership provides an effective way to align the interests of shareholders and executives. Therefore, half of an executive director's long term bonus will be paid in shares of the company three years after the end of the relevant performance period.

Components of pay for Executive Directors
The components are base salary, short term bonus schemes, a long term bonus scheme, pension entitlement and other benefits. The role of each is summarised below:

Base salary Salaries of executive directors reflect the scope of, and changes in, their responsibilities and are reviewed annually by the remuneration committee with reference to external comparisons.

Short term executive bonus scheme This scheme rewards executive directors for achieving operating efficiencies and profitable growth in the relevant year by reference to challenging but achievable budgets.
During 1995/96, the performance criteria were sales growth and profit after tax in equal proportions. A bonus of 10% of base salary was payable for performance at 98% and 95% of budget on sales and profit after tax respectively. The bonus scale rose to 25% of salary for performance at budget level and to a maximum of 35% when sales and profit after tax were at 102% and 110% of budget respectively. In 1995/96 a bonus equal to 21% was earned by executive directors.

Short term profit related bonus schemes Profit related bonus schemes cover various groups of staff, including executive directors. These schemes are based on performance against budget and there is a maximum payment of £6,000 to any individual.

Long term bonus scheme This scheme provides a direct link between the pay of executive directors and the creation of value for shareholders. Company performance is measured over rolling, four year cycles, in terms of total shareholder return relative to a peer group of ten other leading companies. During the year ended 31st March 1996, the chosen peer group was:

Great Universal Stores	Sears
Kingfisher	Smith & Nephew
Marks and Spencer	SmithKline Beecham
Reckitt & Colman	Tesco
J Sainsbury	W H Smith

The peer group is reviewed before each performance cycle to maintain its relevance. Transitional performance cycles began on 1st April 1995 and will end on 31st March 1997, 1998 and 1999. From April 1996, four year cycles commenced on an annual basis. Accordingly, executive directors will have the opportunity of receiving long term bonus payments annually.

The amount of bonus depends upon the company's comparative performance against its peer group on the following scale:

Comparative position in peer group league table	1	2	3	4	5	6	7	8	9	10	11
Bonus % of average annual salary	90	90	90	65	55	45	35	25	Nil	Nil	Nil

After the end of each performance period, one half of any bonus earned will be paid in cash. The value of the remaining half will be converted into an equivalent number of shares in the company at the market price then ruling and the executive director will normally become entitled to receive those shares only after remaining employed for a further three years. If a director leaves the company during the three-year period (except in the case of normal retirement, disability or death), his conditional entitlement to those shares will lapse.
At 31st March 1996 there are no payments due to directors under the current scheme since the first cycle will not end until 31st March 1997. Included in directors' remuneration is the balance of awards including interest now payable under the previous executive directors' long term scheme since all executive directors who were in office at 31st March 1995 when that scheme ended either remained in office at 31st March 1996 or retired during the year. Payments shown under the long term bonus scheme to Mr S G Russell and Mr B E Whalan relate to a separate scheme, applicable to senior executives below board level, which commenced in April 1993. They will receive any payments due under the executive directors' scheme after the end of the first cycle in March 1997.

Pension entitlement Executive directors receive pension entitlements from the principal UK pension scheme, referred to in note 24, and supplementary pension arrangements which provide additional benefits aimed at producing a pension of two-thirds final base salary. The chief executive is entitled to the same level of pension benefits enjoyed by other executive directors despite his shorter service but after adjusting for pensions arising from earlier employment. Pension entitlement is calculated only on the salary element of remuneration. The study group on directors' remuneration chaired by Sir Richard Greenbury recommended that the remuneration committee's report should include details of pension entitlements calculated on a basis to be recommended by the Faculty of Actuaries and the Institute of Actuaries. These bodies have now recommended bases for disclosure which are being considered by the London Stock Exchange before definitive requirements are established. Pending the issue of these requirements, the company is continuing to disclose pension entitlements on the basis of contributions paid in respect of each director.

Long service payments and other benefits Staff, including executive directors, who have completed ten years service are entitled to a long service payment. This is based upon level of salary and the number of years service, up to a maximum of £4,000 per annum. Payments under this scheme are being reduced gradually and will cease in the year 2001. Executive directors receive other benefits, including a company car, sick pay and holidays, which overall provide a reasonably competitive package comparable with that provided by other major companies.

Contracts of Service

The chairman has a fixed term service contract with the company which expires in July 1997. None of the non-executive directors has a service contract, including Mr P J Davis who is standing for re-appointment as a director at the annual general meeting.

Each executive director has a service contract which is terminable by the company on two years notice. All such contracts terminate when the director in question reaches the age of 60, except in the case of Mr A H Hawksworth, whose contract has been extended until 31st July 1996.

In May 1995, executive directors agreed, without compensation, to reduce the period of notice from three years to two years. The remuneration committee considers that it is appropriate for executive directors to have a service contract on such terms having regard to their seniority and value to the company and the generally prevailing practice among comparable companies. If any service contract were to be terminated by the company giving less than the contractual period of notice, the requirement for the director to mitigate his loss would be taken into account in determining any resulting compensation.

It is recognised that directors may be invited to become non-executive directors of other companies and that the additional experience and knowledge that this brings will benefit the company. Accordingly, the policy is to allow executive directors to accept up to two such appointments where no conflict of interest arises and to retain the fees received.

Directors' Remuneration	1996 £000	1995 £000
Executive directors		
a) Salaries	**1,689**	1,768
Performance related bonuses		
b) – short term schemes	**350**	415
c) – long term schemes net of previous payments	**1,697**	2,157
d) Long service payments and other benefits	**93**	87
	3,829	4,427
Pension contributions	**227**	232
	4,056	4,659
Non-executive directors		
Fees	**155**	139
Total remuneration	**4,211**	4,798

An analysis of the components of remuneration shown above by individual director is as follows:

£000	(a)	(b)	(c)	(d)	Total 1996	Total 1995	Pension Contributions 1996	Pension Contributions 1995
K Ackroyd (Note 6)	–	–	–	–	–	529	–	12
Sir Michael Angus (Note 1)	**120**	–	–	–	**120**	83	–	–
Sir Christopher Benson (Note 2,6)	–	–	–	–	–	56	–	–
Lord Blyth (Note 3)	**470**	**105**	**580**	**20**	**1,175**	898	**70**	67
E E Cliffe (Note 6)	–	–	–	–	–	175	–	–
A H Hawksworth	**200**	**48**	**239**	**11**	**498**	386	**30**	28
G M Hourston (Note 4)	**144**	**21**	**296**	**3**	**464**	491	**14**	36
T G Richardson (Note 6)	–	–	–	–	–	215	–	–
M F Ruddell	**200**	**48**	**228**	**18**	**494**	377	**30**	27
S G Russell (Note 5)	**167**	**41**	**76**	**12**	**296**	–	**25**	–
G R Solway (Note 6)	–	–	–	–	–	768	–	29
D A R Thompson	**240**	**56**	**265**	**17**	**578**	449	**36**	33
B E Whalan (Note 5)	**148**	**31**	**13**	**12**	**204**	–	**22**	–

Note
1 Chairman with effect from 21st July 1994
2 Previous Chairman
3 Highest paid director
4 To date of retirement
5 From date of appointment
6 Now retired

Payment of fees to individual non-executive directors, including Sir Michael Angus before appointment as chairman, was as follows:

	1996 £000	1995 £000
Sir Michael Angus	–	6
P J Davis	**28**	30
F M Harrison	**23**	11
Sir Ian Prosser	**27**	27
Sir Peter Reynolds	**27**	27
Sir Clive Whitmore	**23**	11
R P Wilson	**27**	27

The code of best practice proposes that the requirement under the Companies Act 1985 to show an analysis of remuneration of directors, excluding pension contributions, into £5,000 bands should be removed as full disclosure of individual's remuneration is now required under the code. However, since the statutory requirements have not yet been changed an analysis of remuneration of directors, excluding pension contributions, is shown below:

	Number of directors 1996	Number of directors 1995
£1,170,001–1,175,000	**1**	–
£ 895,001– 900,000	–	1
£ 765,001– 770,000	–	1
£ 575,001– 580,000	**1**	–
£ 525,001– 530,000	–	1
£ 495,001– 500,000	**1**	–
£ 490,001– 495,000	**1**	1
£ 460,001– 465,000	**1**	–
£ 445,001– 450,000	–	1
£ 385,001– 390,000	–	1
£ 375,001– 380,000	–	1
£ 295,001– 300,000	**1**	–
£ 215,001– 220,000	–	1
£ 200,001– 205,000	**1**	–
£ 175,001– 180,000	–	1
£ 115,001– 120,000	**1**	–
£ 85,001– 90,000	–	1
£ 55,001– 60,000	–	1
£ 25,001– 30,000	**4**	4
£ 20,001– 25,000	**2**	–
£ 10,001– 15,000	–	2

Directors' Shareholdings and SAYE Share Options

The beneficial interests of the directors and their families in the share capital of the company at 31st March 1996 are shown below. Included under 'ordinary shares' are those held in trust under the company's 1981 profit sharing scheme. No director holds any loan capital. The company's register of directors' interests, which is open to inspection, contains full details of directors' shareholdings and options to subscribe. Directors' shareholdings on 5th June 1996 remain unchanged.

Information on the company's share option schemes is detailed in note 21. SAYE share options allow the holders to buy the company's shares at a future date at a price based on 80% of the market price prevailing a few days before the date of grant.

	Ordinary shares 1996	Ordinary shares 1995	**Ordinary shares under SAYE option 1996**	Average exercise price	Exercised during the year	Exercise price	Market price at date of exercise	Granted during the year	Ordinary shares under SAYE option 1995
Sir Michael Angus	**3,348**	3,348	**–**	–	–	–	–	–	–
Lord Blyth	**41,562**	40,257	**5,037**	354p	–	–	–	841	4,196
P J Davis	**3,098**	3,098	**–**	–	–	–	–	–	–
F M Harrison	**1,010**	–	**–**	–	–	–	–	–	–
A H Hawksworth	**39,932**	33,529	**4,749**	376p	5,242	206p	553p	2,524	7,467
Sir Ian Prosser	**1,072**	1,072	**–**	–	–	–	–	–	–
Sir Peter Reynolds	**3,502**	3,502	**–**	–	–	–	–	–	–
M F Ruddell	**29,473**	28,547	**5,196**	355p	–	–	–	841	4,355
S G Russell	**20,689**	10,258*	**4,097**	421p	–	–	–	–	4,097*
D A R Thompson	**40,583**	40,529	**3,338**	337p	–	–	–	–	3,338
B E Whalan	**6,569**	4,407*	**4,619**	373p	–	–	–	–	4,619*
Sir Clive Whitmore	**1,515**	–	**–**	–	–	–	–	–	–
R P Wilson	**2,000**	2,000	**–**	–	–	–	–	–	–

* at date of appointment

In addition, Sir Peter Reynolds has a non-beneficial interest in 1,300 (1995 1,300) ordinary shares.

The average exercise price for 1996 represents the weighted average price for options outstanding. Market price information is shown on page 45. Dates from when options are exercisable and expiry dates are shown in note 21.

Directors' Executive Share Options

Executive share options allow the holders to buy the company's shares at a future date at a price based on the market price prevailing a few days before the date of grant. As stated on page 40, the practice of granting executive share options has ceased.

The number of outstanding executive share options at each exercise price is as follows:

	1996 286p	**1996 399p**	**1996 437p**	**1996 438p**	**1996 482p**	**1996 531p**	**1996 Total**	1995 Total
Lord Blyth	–	**167,500**	**100,000**	**95,000**	**27,500**	**20,000**	**410,000**	410,000
A H Hawksworth	–	**65,000**	**22,500**	**52,500**	–	–	**140,000**	140,000
M F Ruddell	–	**77,500**	**5,000**	**45,000**	**35,000**	**5,000**	**167,500**	167,500
S G Russell	**10,000**	**35,000**	**20,000**	–	–	**5,000**	**70,000**	115,000*
D A R Thompson	–	**45,000**	**27,500**	**45,000**	–	**70,000**	**187,500**	187,500
B E Whalan	–	–	–	**32,500**	–	**7,500**	**40,000**	105,000*

*at date of appointment

The market price of the company's shares at 31st March 1996 was 599p. The range of market prices during the year was 500p to 627p. No executive options lapsed during the year and no new ones were granted. The directors have agreed to exercise all outstanding executive share options by 31st March 1998.

Details of executive share options exercised during the year are as follows:

	Number of shares at exercise price			Market price at date of exercise	Value realised
	257p	286p	399p		£
S G Russell	45,000	–	–	560p	136,350
B E Whalan	–	37,500	27,500	547p	138,575

Value realised represents the number of shares under option which have been exercised, valued at the difference between the market price at date of exercise and the exercise price.

Signed on behalf of the board:

Sir Michael Angus
Chairman

Directors' Responsibilities Statement

The directors are required by the Companies Act 1985 to prepare financial statements which give a true and fair view of the profit or loss for the financial year and of the state of affairs of the company and the group at the end of that period. The directors are of the opinion that suitable accounting policies have been used and applied consistently, applicable accounting standards have been followed, and reasonable and prudent judgements and estimates have been made. The financial statements have been prepared on a going concern basis. The directors have a responsibility to ensure that the company and its subsidiaries have suitable internal controls for maintaining adequate accounting records, for safeguarding the assets of the group, and for preventing and detecting fraud and other irregularities.

Auditors' Report
Report of the Auditors to the members of The Boots Company PLC.

We have audited the financial statements on pages 50 to 75. We have also examined the amounts disclosed relating to emoluments, share options and long term incentive scheme interests of the directors which form part of the board remuneration committee's report on pages 40 to 45.

Respective responsibilities of directors and auditors As described on page 46, the company's directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion to you.

Basis of opinion We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group as at 31st March 1996 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG
Chartered Accountants
Registered Auditors
Birmingham
5th June 1996

The directors of The Boots Company PLC present their annual report to shareholders, together with the audited financial statements for the year ended 31st March 1996.

Principal activities
The group's principal activities during the year were:
- retailing of chemists' merchandise, autoparts, DIY products and children's merchandise.
- the provision of opticians' services.
- the development, manufacture and marketing of healthcare and consumer products.
- property investment, development and management.

Further information on the group's continuing activities is provided on pages 10 and 11.

Business review and future developments
A review of group activities during the year and likely future developments are dealt with in the Chief Executive's Review and other business reviews on pages 6 to 23.

Group results
The group profit and loss account for 1996 shown on page 50 includes the following details:

	1996 £m	1995 £m
Turnover	**4,124.7**	4,308.1
Profit on ordinary activities before exceptional items and taxation	**493.5**	525.6
Profit on ordinary activities before taxation	**507.7**	849.7

Appropriations
The directors recommend the payment of a final dividend of 12.8p per share which, if approved by shareholders, will be paid on 23rd August 1996 to shareholders registered on 25th June 1996. When added to the interim dividend of 5.7p paid on 2nd February 1996, this makes a total dividend payment for the year of 18.5p per share (1995 17.0p per share). Payment of these dividends requires £176.4m (1995 £166.4m), leaving £164.2m (1995 £492.8m) retained in the business.

Group structure
On 31st August 1995, Boots Contract Manufacturing sold the remaining part of its Boots Print business.
On 6th December 1995, Boots Healthcare International sold its Kenyan subsidiary.
On 6th December 1995, Boots Contract Manufacturing acquired a cosmetics and toiletries business in both France and Germany.
Further details of these disposals and acquisitions are provided in note 4 on page 60.
On 29th February 1996, the group announced that it had exchanged contracts to sell Childrens World Ltd to Storehouse PLC. The disposal was completed on 17th May 1996.

Share capital
Details of changes in the share capital are shown in note 21 on page 70.
At the annual general meeting on 27th July 1995, shareholders authorised the company to make market purchases of its own ordinary shares of 25p each. No such purchases had been undertaken at the date of this report.
At the forthcoming annual general meeting on 25th July 1996, shareholders will be invited to renew the company's authority to make further market purchases. The authority will be limited to the purchase of not more than 95.38m ordinary shares, being approximately 10% of the ordinary shares in issue at the date of this report; the maximum price payable to be 105% of the average of the middle market quotations for the 10 business days before the purchase, with a 25p minimum, exclusive of any expenses payable by the company.

Shareholders
As at 5th June 1996, the register maintained by the company under section 211 of the Companies Act 1985 did not contain any notification to the company that anyone held 3% or more of the issued ordinary share capital of the company.

Fixed assets
The group's UK freehold and long leasehold properties, excluding factories and specialised buildings, were valued by the directors in conjunction with the group's own professionally qualified staff at 31st March 1993. The valuation, which was on an open market value basis for existing use, was incorporated in the financial statements of that year. The directors are of the opinion that the market value of the group's properties at 31st March 1996 was not materially different from that stated in the financial statements.

Payment of suppliers
It is the policy of the company that each of the businesses in the group should agree appropriate terms and conditions for its transactions with suppliers (by means ranging from standard written terms to individually negotiated contracts) and that payment should be made in accordance with those terms and conditions, provided that the supplier has also complied with them.

Staff
The company continues to involve staff in the decision-making process and communicates regularly with them during the year. Their involvement in the company's performance is encouraged with employee bonus and share schemes. The involvement extends to the board of Boots Pensions Ltd, on which there are four employee representatives. The company's aim for all members of staff and applicants for employment is to fit the qualifications, aptitude and ability of each individual to the appropriate job, and to provide equal opportunity, regardless of sex, religion or ethnic origin. The company does all that is practicable to meet its responsibility towards the employment and training of disabled people. Where an employee becomes disabled, every effort is made to provide continuity of employment in the same job or a suitable alternative. Further information is shown on page 24.

Charitable donations
Donations for charitable and educational purposes in the UK for the year were £2,060,000 (1995 £2,204,000). There were no political payments. Further information on community relations is shown on pages 25 and 26.

Directors
Details of directors in office on 31st March 1996 are shown on pages 12 and 13. In addition, Mr G M Hourston was a director until his retirement on 31st July 1995.
Lord Blyth, Mr D A R Thompson, Mr P J Davis and Sir Ian Prosser retire by rotation at the annual general meeting in accordance with Article 87. Lord Blyth, Mr D A R Thompson and Mr P J Davis offer themselves for reappointment.
Lord Blyth and Mr D A R Thompson both have service contracts with the company which are subject to two years' notice of termination by the company.
Mr A H Hawksworth is retiring as a director of the company on 31st July 1996.
No director had any interest, either during or at the end of the financial year, in any contract which was significant in relation to the group's business, other than a service contract.
Details of the interests of the directors and their families in the share capital of the company at 31st March 1996 are shown in the Board Remuneration Committee's Report on pages 44 and 45.

Auditors
The auditors KPMG have indicated that a limited liability company, KPMG Audit Plc, is to undertake part of their audit business. Accordingly, a resolution is to be proposed at the annual general meeting for the appointment of KPMG Audit Plc as auditor to the company.

By order of the board
5th June 1996
I A Hawtin
Secretary

Group Profit and Loss Account

For the year ended 31st March 1996	Notes	**Before exceptional items 1996 £m**	**Exceptional items (note 3) 1996 £m**	**Total 1996 £m**	Before exceptional items 1995 £m	Exceptional items (note 3) 1995 £m	Total 1995 £m
Turnover							
Continuing operations		**4,010.4**	**–**	**4,010.4**	3,789.3	–	3,789.3
Discontinued operations		**114.3**	**–**	**114.3**	518.8	–	518.8
Total turnover	1	**4,124.7**	**–**	**4,124.7**	4,308.1	–	4,308.1
Operating profit							
Continuing operations		**444.0**	**12.8**	**456.8**	433.3	2.8	436.1
Discontinued operations		**(1.4)**	**–**	**(1.4)**	86.9	–	86.9
Total operating profit	1, 2	**442.6**	**12.8**	**455.4**	520.2	2.8	523.0
Profit/(loss) on disposal of fixed assets	3						
Continuing operations		**–**	**1.2**	**1.2**	–	1.2	1.2
Profit on disposal of businesses	3, 4						
Continuing operations		**–**	**0.2**	**0.2**	–	47.0	47.0
Discontinued operations		**–**	**–**	**–**	–	273.1	273.1
Profit on ordinary activities before interest		**442.6**	**14.2**	**456.8**	520.2	324.1	844.3
Net interest	5	**50.9**	**–**	**50.9**	5.4	–	5.4
Profit on ordinary activities before taxation		**493.5**	**14.2**	**507.7**	525.6	324.1	849.7
Tax on profit on ordinary activities	6	**(163.4)**	**(3.7)**	**(167.1)**	(161.0)	(24.8)	(185.8)
Profit on ordinary activities after taxation		**330.1**	**10.5**	**340.6**	364.6	299.3	663.9
Minority interests		**–**	**–**	**–**	(3.9)	(0.8)	(4.7)
Profit for the financial year attributable to shareholders	7	**330.1**	**10.5**	**340.6**	360.7	298.5	659.2
Dividends	8			**(176.4)**			(166.4)
Profit retained				**164.2**			492.8
Earnings per share	9	**34.7p**	**1.1p**	**35.8p**	36.0p	29.7p	65.7p

Statement of Total Recognised Gains and Losses

For the year ended 31st March 1996	1996 £m	1995 £m
Profit for the financial year attributable to shareholders	**340.6**	659.2
Surplus on revaluation of investment properties	**16.0**	6.6
Currency translation differences on foreign currency net investments (including goodwill)	**3.3**	(18.5)
Other gains and losses	**–**	0.2
Total recognised gains and losses for the year	**359.9**	647.5

Note on Historical Cost Profits and Losses

For the year ended 31st March 1996	1996 £m	1995 £m
Reported profit on ordinary activities before taxation	**507.7**	849.7
Realisation of property revaluation surpluses	**5.3**	1.0
Difference between historical cost depreciation charge and actual charge for the year calculated on revalued amounts	**0.2**	0.1
Historical cost profit on ordinary activities before taxation	**513.2**	850.8
Historical cost profit retained	**169.7**	493.9

Reconciliation of Movements in Shareholders' Funds

For the year ended 31st March 1996	1996 £m	1995 £m
Total recognised gains and losses for the year	**359.9**	647.5
Dividends	**(176.4)**	(166.4)
New share capital issued (net of expenses)	**9.1**	15.4
Repurchase of shares	**–**	(511.3)
Goodwill purchased	**(8.7)**	(3.9)
Goodwill released on disposal of businesses	**0.1**	383.4
Scrip dividends (see notes 20, 21)	**10.6**	–
Currency adjustment on goodwill	**–**	33.6
Net increase in shareholders' funds	**194.6**	398.3
Opening shareholders' funds	**2,006.9**	1,608.6
Closing shareholders' funds	**2,201.5**	2,006.9

Balance Sheets

31st March 1996	Notes	**Group 1996 £m**	Group 1995 £m	**Parent 1996 £m**	Parent 1995 £m
Fixed assets					
Intangible assets	10	**26.6**	28.7	**2.6**	3.0
Tangible assets	11	**1,624.4**	1,498.0	**205.2**	176.1
Investments	12	**46.4**	30.6	**962.2**	977.1
		1,697.4	1,557.3	**1,170.0**	1,156.2
Current assets					
Stocks	13	**522.1**	489.8	**168.4**	162.1
Debtors falling due within one year	14	**358.9**	319.5	**735.3**	444.7
Debtors falling due after more than one year	14	**2.2**	4.7	**186.0**	160.9
Investments and deposits	15	**893.9**	1,015.6	**868.6**	986.8
Cash at bank and in hand		**15.3**	14.6	**0.1**	0.1
		1,792.4	1,844.2	**1,958.4**	1,754.6
Creditors: Amounts falling due within one year	16	**(1,092.1)**	(1,082.3)	**(1,264.1)**	(763.2)
Net current assets		**700.3**	761.9	**694.3**	991.4
Total assets less current liabilities		**2,397.7**	2,319.2	**1,864.3**	2,147.6
Creditors: Amounts falling due after more than one year	17	**(150.5)**	(264.7)	**(562.5)**	(738.3)
Provisions for liabilities and charges	19	**(45.7)**	(47.6)	**(15.8)**	(24.4)
Net assets		**2,201.5**	2,006.9	**1,286.0**	1,384.9
Capital and reserves					
Called up share capital	20,21	**238.4**	237.2	**238.4**	237.2
Share premium account	20	**226.9**	219.0	**226.9**	219.0
Revaluation reserve	20	**321.4**	310.7	**–**	–
Capital redemption reserve	20	**24.0**	24.0	**24.0**	24.0
Profit and loss account	20	**1,390.8**	1,216.0	**796.7**	904.7
Equity shareholders' funds		**2,201.5**	2,006.9	**1,286.0**	1,384.9

The financial statements were approved by the board of directors on 5th June 1996
and are signed on its behalf by:

Sir Michael Angus
Chairman

Lord Blyth of Rowington
Deputy Chairman and Chief Executive

David Thompson
Finance Director

Group Cash Flow Statement

For the year ended 31st March 1996	Notes	1996 £m	1996 £m	1995 £m	1995 £m
Net cash inflow from operating activities	22		**536.5**		642.3
Returns on investment and servicing of finance					
Interest received		**55.8**		49.4	
Interest paid		**(39.6)**		(41.2)	
Dividends paid to shareholders		**(154.4)**		(151.5)	
Dividends paid to minority interests		**–**		(0.8)	
Net cash outflow from returns on investment and servicing of finance			**(138.2)**		(144.1)
Taxation					
UK corporation tax paid		**(139.1)**		(113.2)	
Overseas tax paid		**(13.6)**		(26.3)	
Tax paid			**(152.7)**		(139.5)
Investing activities					
Purchase of fixed assets		**(225.1)**		(255.5)	
Purchase of businesses	4	**(17.2)**		(7.8)	
Investment in and loans to associated undertakings		**(24.5)**		(4.8)	
Disposal of fixed assets		**27.8**		24.5	
Disposal of businesses	4	**(6.7)**		896.8	
Purchase of index linked treasury stock		**(199.7)**		–	
(Increase)/decrease in other short term investments and deposits		**(461.7)**		185.5	
Net cash (outflow)/inflow from investing activities			**(907.1)**		838.7
Net cash (outflow)/inflow before financing			**(661.5)**		1,197.4
Financing					
Issue of ordinary share capital		**9.1**		5.9	
Repurchase of shares		**–**		(511.3)	
Capital element of finance lease rental payments		**(1.0)**		(1.3)	
Decrease in other borrowings		**(4.0)**		(2.2)	
Net cash inflow/(outflow) from financing			**4.1**		(508.9)
(Decrease)/increase in cash and cash equivalents	22		**(657.4)**		688.5

Analysis of movement in net cash		1996 £m	1995 £m
At 1st April		**517.2**	69.0
(Decrease)/increase in cash and cash equivalents		**(657.4)**	688.5
Movement in funds with maturity of more than three months		**666.4**	(182.0)
Investments and borrowings of businesses acquired/disposed	4	**(1.1)**	(78.0)
Movement in net liability under currency swaps		**0.4**	18.5
Increase in value of investment in 10.125% bond 2017		**12.5**	11.4
Currency and other non-cash adjustments		**(11.8)**	(10.2)
At 31st March		**526.2**	517.2

Net cash comprises cash and cash equivalents, short term investments and deposits, finance leases and all borrowings.

The following accounting policies have been used in dealing with items which are considered material in relation to the group and parent company financial statements.

Basis of accounting
The financial statements have been prepared in accordance with applicable accounting standards and under alternative accounting rules set out in Schedule 4 to the Companies Act 1985, being prepared under the historical cost convention adjusted by the revaluations of certain properties. However, compliance with SSAP19 'Accounting for investment properties' requires a departure from the requirements of the Companies Act 1985 relating to the depreciation of investment properties as described in note 11. A separate profit and loss account for the parent company has not been presented as permitted by section 230 of the Companies Act 1985.
Two new accounting standards, FRS6 'Acquisitions and mergers' and FRS7 'Fair values in acquisition accounting', have come into force for the first time in respect of these financial statements. Neither has had a material effect on the results for the year.

Consolidation
The financial statements combine the results of the parent undertaking and all its subsidiary and associated undertakings, to the extent of group ownership and after eliminating intra-group transactions.
The results of businesses acquired or disposed of are consolidated from or to the effective dates of acquisition or disposal.
Associated undertakings are those undertakings, not recognised as subsidiaries, in which the group has a participating interest of between 20% and 50% and over whose policies the group is able to exercise a significant degree of influence. The group's share of the results of associated undertakings is included in the profit and loss account and its share of their net assets excluding goodwill is included in investments in the group balance sheet.
In the parent company balance sheet, investments in subsidiary and associated undertakings are stated at cost less provision for permanent diminution in value.

Foreign currencies
The results and cash flows of overseas subsidiaries are translated into sterling on an average exchange rate basis, weighted by the actual results of each month. Assets and liabilities including currency swaps are translated into sterling at the rates of exchange ruling at the balance sheet date.
Exchange differences arising from the translation of the results and net assets of overseas subsidiaries, less offsetting exchange differences on foreign currency borrowings and currency swaps hedging those assets, are dealt with through reserves. For this purpose net assets include goodwill set off against reserves.
All other exchange differences are dealt with in the profit and loss account.
The cost of the parent company investment in shares in overseas subsidiaries is stated at the rate of exchange in force at the date each investment was made.

Goodwill
Goodwill on acquisitions, being the excess of the cost of investment in subsidiary and associated undertakings over the fair value of net assets acquired, is set off against reserves. Fair values are attributed to the identifiable assets and liabilities that existed at the date of acquisition, reflecting their condition at that date. Adjustments are also made to bring the accounting policies of acquired businesses into alignment with those of the group. The costs of integrating and reorganising acquired businesses are charged to the post-acquisition profit and loss account.
On disposal of a business, any goodwill previously set off against reserves is charged in the calculation of the profit or loss on disposal.
Goodwill arising from overseas acquisitions and denominated in foreign currencies is retranslated at the rate of exchange ruling at the balance sheet date. Any gain or loss arising is recognised in the statement of total recognised gains and losses.

Fixed assets and depreciation
No depreciation is provided on freehold land, investment properties, shop freeholds and shop long leaseholds with more than 50 years to run, nor on assets in the course of construction. In the opinion of the directors, shop properties are maintained to such a standard by a programme of repair and refurbishment that the estimated residual value of these properties, based on the prices prevailing at the time of acquisition or subsequent revaluation, are sufficiently high to make any depreciation charge unnecessary. Any permanent diminution in the value of such properties is charged to the profit and loss account as it arises.
Other tangible fixed assets are written off by equal instalments over their expected useful lives as follows:
Freehold buildings, other than shops – 40 to 66 years
Computer equipment – 3 to 8 years
Motor cars – 4 or 5 years
Other motor vehicles – 3 to 10 years
Fixtures and plant – 5 to 20 years
Shop leasehold properties – Remaining period of lease when less than 50 years
Other leasehold properties – Remaining period of lease
Investment properties are revalued annually and included in the balance sheet at their existing use value.
To qualify as an investment property, over 50% of rental income from the property must derive from non-group tenants.

Profits and losses arising from the disposal of properties which have previously been revalued are calculated by reference to their carrying value.
Intangible assets acquired are amortised over estimated useful lives of up to a maximum of 20 years. Similar assets created within the business are not capitalised and expenditure is charged against profits in the year in which it is incurred. The carrying value of intangible assets is reviewed annually and any permanent diminution in value charged to the profit and loss account.

Turnover
Turnover comprises sales to external customers (excluding VAT and other sales taxes) and rental income.

Stocks
Stocks are valued at the lower of cost and net realisable value. Cost comprises purchase cost of goods, direct labour and those overheads related to manufacture and distribution based on normal activity levels.

Research and development
Expenditure on research and development, other than on buildings and plant, is charged against profit in the year in which it is incurred.

Pension funding
The company and its UK subsidiaries operate pension schemes under which contributions by employees and by the companies are held in trust funds separated from the companies' finances. Actuarial valuations of the schemes are conducted at three year intervals and include a review of contributions.
The cost of providing pensions is spread over the employees' working lives with the companies. The cost charged to the profit and loss account in any year may not always equal the employer contributions to the pension schemes.

Leases
The rental costs of properties and other assets acquired under operating leases are charged to the profit and loss account on a straight line basis. Benefits received as an incentive to sign a lease, whatever form they may take, are credited to the profit and loss account on a straight line basis over the lease term or, if shorter than the full lease term, over the period to the review date on which the rent is first expected to be adjusted to the prevailing market rate.
The cost of assets held under finance leases is included under tangible fixed assets and depreciation is provided in accordance with the policy for the class of asset concerned. The corresponding obligations under these leases are shown as creditors. The finance charge element of rentals is charged to the profit and loss account to produce, or approximate to, a constant periodic rate of charge on the remaining balance of the outstanding obligations.

Deferred taxation
A deferred taxation provision is made only where the effects of timing differences between profits as stated in the financial statements and as computed for tax purposes are likely to reverse in the foreseeable future. Advance corporation tax is carried forward to the extent it is expected to be recovered.
No provision is made for any potential liability to corporation tax on capital gains arising on disposals of assets where the liability is expected to be deferred indefinitely.
No provision is made for taxation liabilities which would arise on the distribution of profits retained by overseas subsidiaries and associates as there is no present intention to remit the major part of these profits.

Exceptional items
Exceptional items are those which fall within the ordinary activities of the group and which need to be disclosed by virtue of their size or incidence. Such items are included within operating profit unless they represent profits or losses on the sale or termination of an operation, costs of a fundamental reorganisation or restructuring having a material effect on the nature and focus of the group's operations, profits or losses on the disposal of fixed assets (other than marginal adjustments to depreciation previously charged), or provisions in respect of such items. In these cases, separate disclosure is provided on the face of the profit and loss account after operating profit.

1 **Segmental information**

a Turnover by business segment	**Total 1996 £m**	**Inter-segment 1996 £m**	**External 1996 £m**	Total 1995 £m	Inter-segment 1995 £m	External 1995 £m
Continuing operations						
Boots The Chemists	**3,107.6**	**–**	**3,107.6**	2,943.8	0.4	2,943.4
Halfords	**390.5**	**0.9**	**389.6**	377.9	0.8	377.1
Boots Opticians	**132.3**	**–**	**132.3**	119.1	–	119.1
A G Stanley	**104.9**	**–**	**104.9**	114.6	–	114.6
Share of Do It All	**170.7**	**–**	**170.7**	185.3	–	185.3
Boots Healthcare International	**206.7**	**16.7**	**190.0**	203.5	17.7	185.8
Boots Contract Manufacturing	**239.4**	**175.7**	**63.7**	216.0	184.2	31.8
Boots Properties (see below)	**102.9**	**80.6**	**22.3**	98.0	80.5	17.5
	4,455.0	**273.9**	**4,181.1**	4,258.2	283.6	3,974.6
Discontinued operations						
Childrens World	**114.3**	**–**	**114.3**	104.8	–	104.8
Boots Pharmaceuticals	**–**	**–**	**–**	441.8	15.4	426.4
	4,569.3	**273.9**	**4,295.4**	4,804.8	299.0	4,505.8

Analysis of external turnover	**Continuing operations 1996 £m**	**Discontinued operations 1996 £m**	**Total 1996 £m**	Continuing operations 1995 £m	Discontinued operations 1995 £m	Total 1995 £m
Group profit and loss account	**4,010.4**	**114.3**	**4,124.7**	3,789.3	518.8	4,308.1
Share of associated undertakings	**170.7**	**–**	**170.7**	185.3	12.4	197.7
	4,181.1	**114.3**	**4,295.4**	3,974.6	531.2	4,505.8

Boots Properties' turnover includes development income of £7.0m (1995 £5.6m).

b Turnover by geographical segment	**Origin 1996 £m**	Origin 1995 £m	**Destination 1996 £m**	Destination 1995 £m
Continuing operations				
UK	**4,063.6**	3,865.7	**4,016.0**	3,833.1
Rest of Europe	**58.1**	50.1	**81.3**	61.8
US	**–**	–	**0.1**	0.4
Rest of World	**76.4**	71.7	**83.7**	79.3
Inter-segment	**(17.0)**	(12.9)	**–**	–
	4,181.1	3,974.6	**4,181.1**	3,974.6
Discontinued operations				
UK	**114.3**	193.4	**114.3**	127.7
Rest of Europe	**–**	114.6	**–**	131.1
US	**–**	193.0	**–**	200.0
Rest of World	**–**	55.7	**–**	72.4
Inter-segment	**–**	(25.5)	**–**	–
	114.3	531.2	**114.3**	531.2
	4,295.4	4,505.8	**4,295.4**	4,505.8

c Profit by business segment	Before exceptional items 1996 £m	Exceptional items (note 3) 1996 £m	Total 1996 £m	Before exceptional items 1995 £m	Exceptional items (note 3) 1995 £m	Total 1995 £m
Continuing operations						
Boots The Chemists	**384.8**	**–**	**384.8**	349.7	–	349.7
Halfords	**22.1**	**–**	**22.1**	20.5	–	20.5
Boots Opticians	**10.9**	**12.8**	**23.7**	8.3	2.8	11.1
A G Stanley	**(12.2)**	**–**	**(12.2)**	(8.5)	–	(8.5)
Share of Do It All	**(10.1)**	**–**	**(10.1)**	(6.3)	–	(6.3)
Boots Healthcare International	**(8.2)**	**–**	**(8.2)**	9.8	–	9.8
Boots Contract Manufacturing	**16.7**	**–**	**16.7**	17.8	–	17.8
Boots Properties (see below)	**68.2**	**–**	**68.2**	66.8	–	66.8
Group costs	**(28.2)**	**–**	**(28.2)**	(24.8)	–	(24.8)
	444.0	**12.8**	**456.8**	433.3	2.8	436.1
Discontinued operations						
Childrens World	**(1.4)**	**–**	**(1.4)**	0.5	–	0.5
Boots Pharmaceuticals	**–**	**–**	**–**	86.4	–	86.4
Operating profit	**442.6**	**12.8**	**455.4**	520.2	2.8	523.0
Profit/(loss) on disposal of fixed assets	**–**	**1.2**	**1.2**	–	1.2	1.2
Profit on disposal of businesses	**–**	**0.2**	**0.2**	–	320.1	320.1
Net interest	**50.9**	**–**	**50.9**	5.4	–	5.4
Profit before tax	**493.5**	**14.2**	**507.7**	525.6	324.1	849.7

Boots Properties' result includes development profits of £1.8m (1995 £1.7m)

d Operating profit by geographical origin	Before exceptional items 1996 £m	Exceptional items (note 3) 1996 £m	Total 1996 £m	Before exceptional items 1995 £m	Exceptional items (note 3) 1995 £m	Total 1995 £m
Continuing operations						
UK	**465.4**	**12.8**	**478.2**	445.7	2.8	448.5
Rest of Europe	**(1.0)**	**–**	**(1.0)**	1.8	–	1.8
Rest of World	**7.8**	**–**	**7.8**	10.6	–	10.6
Group costs	**(28.2)**	**–**	**(28.2)**	(24.8)	–	(24.8)
	444.0	**12.8**	**456.8**	433.3	2.8	436.1
Discontinued operations						
UK	**(1.4)**	**–**	**(1.4)**	(26.9)	–	(26.9)
Rest of Europe	**–**	**–**	**–**	16.7	–	16.7
US	**–**	**–**	**–**	88.3	–	88.3
Rest of World	**–**	**–**	**–**	8.8	–	8.8
	(1.4)	**–**	**(1.4)**	86.9	–	86.9
	442.6	**12.8**	**455.4**	520.2	2.8	523.0

1 **Segmental information continued**

e Net assets by business segment	1996 £m	1995 £m
Continuing operations		
Boots The Chemists	**512.7**	492.8
Halfords	**98.7**	85.2
Boots Opticians	**38.1**	37.7
A G Stanley	**43.6**	42.3
Share of Do It All	**32.9**	16.6
Boots Healthcare International	**68.4**	71.6
Boots Contract Manufacturing	**148.2**	122.3
Boots Properties	**923.6**	852.3
	1,866.2	1,720.8
Discontinued operations		
Childrens World	**42.9**	37.9
Net operating assets	**1,909.1**	1,758.7
Unallocated net assets	**292.4**	248.2
	2,201.5	2,006.9

Net operating assets include intangible and tangible fixed assets, fixed asset investments, stocks, third party debtors and creditors and inter-segmental trading balances. Unallocated net assets include all current taxation balances, dividend creditors, net cash and provisions for liabilities and charges.

f Net operating assets by geographical segment	1996 £m	1995 £m
Continuing operations		
UK	**1,822.5**	1,678.2
Rest of Europe	**22.9**	17.4
Rest of World	**20.8**	25.2
	1,866.2	1,720.8
Discontinued operations		
UK	**42.9**	37.9
	1,909.1	1,758.7

2 Operating profit

	Continuing operations 1996 £m	Discontinued operations 1996 £m	Total 1996 £m	Continuing operations 1995 £m	Discontinued operations 1995 £m	Total 1995 £m
Turnover	**4,010.4**	**114.3**	**4,124.7**	3,789.3	518.8	4,308.1
Cost of sales	**(2,161.1)**	**(70.9)**	**(2,232.0)**	(2,072.9)	(182.5)	(2,255.4)
Gross profit	**1,849.3**	**43.4**	**1,892.7**	1,716.4	336.3	2,052.7
Selling, distribution and store costs	**(1,158.7)**	**(37.2)**	**(1,195.9)**	(1,073.9)	(133.0)	(1,206.9)
Research and development costs	**(17.0)**	**–**	**(17.0)**	(11.8)	(55.6)	(67.4)
Administrative expenses	**(206.7)**	**(7.6)**	**(214.3)**	(188.3)	(61.4)	(249.7)
Operating loss of associated undertakings	**(10.1)**	**–**	**(10.1)**	(6.3)	0.6	(5.7)
Operating profit/(loss)	**456.8**	**(1.4)**	**455.4**	436.1	86.9	523.0
Exceptional credit included in cost of sales	**12.8**	**–**	**12.8**	2.8	–	2.8
Gross profit before exceptional items	**1,836.5**	**43.4**	**1,879.9**	1,713.6	336.3	2,049.9
Operating profit/(loss) before exceptional items	**444.0**	**(1.4)**	**442.6**	433.3	86.9	520.2
Loss before tax of associated undertakings	**(13.6)**	**–**	**(13.6)**	(8.0)	0.6	(7.4)
Total operating profit is after charging:						
Operating lease rentals						
– Property rents			**151.2**			145.9
– Computer and plant hire			**4.4**			7.4
Depreciation of tangible fixed assets			**102.4**			110.2
Amortisation of intangible fixed assets			**2.4**			2.8
Auditors' remuneration			**0.8**			1.1

The group auditors also received £0.5m (1995 £0.2m) in respect of non-audit services in the UK and £0.2m (1995 £0.8m) from overseas subsidiaries.

3 Exceptional items

	Continuing operations 1996 £m	Discontinued operations 1996 £m	Total 1996 £m	Continuing operations 1995 £m	Discontinued operations 1995 £m	Total 1995 £m
VAT recoverable in operating profit (see below)	**12.8**	**–**	**12.8**	2.8	–	2.8
Profit/(loss) on disposal of fixed assets (see below)	**1.2**	**–**	**1.2**	1.2	–	1.2
Profit on disposal of businesses (note 4)	**0.2**	**–**	**0.2**	47.0	273.1	320.1
	14.2	**–**	**14.2**	51.0	273.1	324.1
Attributable tax charge (note 6)	**(3.7)**	**–**	**(3.7)**	(1.2)	(23.6)	(24.8)
Minority interests	**–**	**–**	**–**	–	(0.8)	(0.8)
	10.5	**–**	**10.5**	49.8	248.7	298.5
Profit/(loss) on disposal of fixed assets:						
Profit on disposal of properties	**1.2**	**–**	**1.2**	2.3	–	2.3
Provision for loss on disposal of intangible assets	**–**	**–**	**–**	(1.1)	–	(1.1)
	1.2	**–**	**1.2**	1.2	–	1.2

VAT recoverable relates to Boots Opticians and arises from the High Court decision that VAT is not payable on the dispensing of spectacles. The amounts shown above represent VAT recovered from H M Customs & Excise.

4 Purchase and disposal of businesses

	Purchases 1996 £m	Purchases 1995 £m	**Disposals 1996 £m**	Disposals 1995 £m
Intangible fixed assets	**–**	–	**–**	(13.4)
Tangible fixed assets	**8.7**	–	**(3.3)**	(101.0)
Investment in associated undertaking	**–**	–	**–**	(23.0)
Stocks	**2.9**	4.4	**(1.8)**	(54.3)
Debtors	**2.2**	0.1	**(1.1)**	(57.1)
Cash and cash equivalents	**(2.0)**	–	**0.1**	(172.6)
Investments	**–**	–	**–**	(81.8)
Borrowings and finance leases	**(1.1)**	–	**–**	3.8
Other creditors and provisions	**(3.9)**	(0.6)	**0.9**	78.1
Minority interests	**–**	–	**–**	10.5
Net assets acquired/disposed of	**6.8**	3.9	**(5.2)**	(410.8)
Goodwill purchased	**8.7**	3.9	**–**	–
Goodwill written back	**–**	–	**(0.1)**	(383.4)
Costs of disposals	**–**	–	**(0.4)**	(17.8)
Disposal provisions	**–**	–	**–**	(23.1)
Additional depreciation	**–**	–	**–**	(6.7)
Consideration including deferred cash element	**(15.5)**	(7.8)	**5.9**	1,161.9
Profit on disposals	**–**	–	**0.2**	320.1
Net cash (outflow)/inflow:				
Cash consideration (paid)/received	**(15.2)**	(7.8)	**5.5**	1,073.6
Cash and cash equivalents transferred	**(2.0)**	–	**0.1**	(172.6)
Costs of disposals paid	**–**	–	**(12.3)**	(4.2)
	(17.2)	(7.8)	**(6.7)**	896.8

Purchases

On 6th December 1995, Boots Contract Manufacturing acquired a cosmetics and toiletries business in both France and Germany. There were no significant fair value adjustments.

In addition Boots The Chemists acquired a number of pharmacy businesses during the year.

The impact of acquisitions on the group's operating profit and cash flows is not material.

Disposals

Two disposals were completed during the year. On 31st August 1995, Boots Contract Manufacturing sold the remaining part of its Boots Print business and, on 6th December 1995, Boots Healthcare International sold its Kenyan subsidiary. Neither of these disposals qualified as discontinued operations.

Since the year end, the sale of Childrens World Ltd to Storehouse PLC has been completed for a cash consideration of £62.5m. An exceptional profit on the disposal will be recognised in next year's financial statements. In accordance with FRS3 'Reporting financial performance', this business has been treated as a discontinued operation and its results for both the current year and prior years have been classified accordingly.

The principal disposal during 1995 was the sale of Boots Pharmaceuticals to BASF on 31st March 1995. Costs of disposal of £12.0m incurred during the current year relate to this sale. Boots Healthcare International also disposed of its Farleys infant food and milk business to H.J. Heinz Company in July 1994.

5 Net interest

	1996 £m	1996 £m	1995 £m	1995 £m
Interest receivable and similar income		**71.1**		32.7
Increase in value of investment in 10.125% bond 2017		**12.5**		11.4
Interest payable and similar charges:				
Bank and other loans	**(13.4)**		(19.7)	
Interest capitalised	**3.2**		1.2	
Finance lease charges	**(0.3)**		(0.2)	
Loans and debentures	**(25.2)**		(25.4)	
Income from interest rate swaps	**6.5**		7.1	
		(29.2)		(37.0)
Share of interest of associated undertaking		**(3.5)**		(1.7)
		50.9		5.4

Interest receivable includes £1.6m (1995 £0.5m) from loans to associated undertaking.

6 Tax on profit on ordinary activities

	1996 £m	1995 £m
UK corporation tax	**155.4**	148.2
Deferred taxation	**11.5**	0.2
Relief for overseas taxation	**(2.5)**	(5.2)
Share of taxation of associated undertakings	**(4.9)**	(1.8)
Total UK taxation	**159.5**	141.4
Overseas taxation	**7.5**	39.7
Overseas deferred taxation	**0.1**	4.7
Total	**167.1**	185.8
Tax charge included above attributable to exceptional items:		
VAT recoverable	**4.2**	0.9
Profit/(loss) on disposal of fixed assets	**–**	(0.4)
Profit/(loss) on disposal of businesses	**(0.5)**	24.3
	3.7	24.8

7 **Profit for the financial year attributable to shareholders**

Of the profit attributable to shareholders £57.8m (1995 £966.4m) is dealt with in the financial statements of the parent company.

8 **Dividends**

		1996 £m	1995 £m
Interim paid of **5.7p** per share (1995 5.35p)		**54.4**	55.8
Final proposed of **12.8p** per share (1995 11.65p)		**122.0**	110.6
18.5p	17.0p	**176.4**	166.4

9 **Earnings per share**

	1996	1995
Earnings per share before exceptional items	**34.7p**	36.0p
Effect of exceptional items	**1.1p**	29.7p
Earnings per share	**35.8p**	65.7p

The calculation of earnings per share is based on 951.5m (1995 1,002.7m) average ordinary shares in issue, weighted on a time basis, and profit for the financial year attributable to shareholders of £340.6m (1995 £659.2m). The fully diluted earnings per share would not be materially different.

Earnings per share before exceptional items is also disclosed to reflect the underlying performance of the group. This calculation is based on profit for the financial year before exceptional items and related tax of £330.1m (1995 £360.7m).

10 **Intangible fixed assets**

Patents, trademarks and other product rights acquired	Group £m	Parent £m
Cost		
At 1st April 1995	38.2	8.3
Disposals	(1.1)	(1.1)
Currency adjustments	0.5	–
At 31st March 1996	**37.6**	**7.2**
Amortisation		
At 1st April 1995	9.5	5.3
Amortisation for year	2.4	0.4
Disposals	(1.1)	(1.1)
Currency adjustments	0.2	–
At 31st March 1996	**11.0**	**4.6**
Net book value at 1st April 1995	28.7	3.0
Net book value at 31st March 1996	**26.6**	**2.6**

11 Tangible fixed assets

Group	Land and buildings £m	Plant and machinery £m	Fixtures, fittings, tools and equipment £m	Payments on account and assets in course of construction £m	Total £m
Cost or valuation					
At 1st April 1995	881.2	202.0	963.1	47.0	2,093.3
Currency adjustments	0.5	0.6	0.5	–	1.6
Additions	46.7	26.0	96.4	70.6	239.7
Purchase of businesses (note 4)	6.6	1.9	0.2	–	8.7
Disposals	(20.2)	(15.1)	(34.8)	(1.2)	(71.3)
Disposal of businesses (note 4)	(0.3)	(5.5)	(1.2)	–	(7.0)
Reclassifications	17.4	10.9	6.6	(34.9)	–
Revaluation surplus	16.0	–	–	–	16.0
At 31st March 1996	**947.9**	**220.8**	**1,030.8**	**81.5**	**2,281.0**
Gross book value of depreciable assets	166.6	220.8	1,030.8	36.8	1,455.0
Depreciation					
At 1st April 1995	35.2	90.5	469.6	–	595.3
Currency adjustments	0.2	0.3	0.3	–	0.8
Depreciation for year	3.8	22.4	76.2	–	102.4
Disposals	(0.5)	(10.3)	(27.4)	–	(38.2)
Disposal of businesses (note 4)	(0.1)	(3.0)	(0.6)	–	(3.7)
Reclassifications	–	0.5	(0.5)	–	–
At 31st March 1996	**38.6**	**100.4**	**517.6**	**–**	**656.6**
Net book value at 1st April 1995	846.0	111.5	493.5	47.0	1,498.0
Net book value at 31st March 1996	**909.3**	**120.4**	**513.2**	**81.5**	**1,624.4**

The net book value of tangible fixed assets includes £7.5m (1995 £1.1m) in respect of assets held under finance leases on which the depreciation charge for the year was £0.7m (1995 £0.8m).
Land and buildings include capitalised interest net of taxation of £4.2m (1995 £1.4m).

Land and buildings include investment properties as follows:	£m
Valuation	
At 1st April 1995	140.3
Additions	24.0
Reclassification	(1.0)
Revaluation surplus	16.0
At 31st March 1996	**179.3**

In previous years, investment properties which had any group occupancy were valued on the basis of open market value, taking into account the existence of formal lease arrangements with group companies which were determined on an arm's length basis. In order to comply with the new rules of the Royal Institution of Chartered Surveyors (RICS), the basis of valuation for these properties has been changed this year to existing use value which does not take account of formal lease arrangements with group companies. This change in valuation policy has contributed to the overall increase in value of the portfolio of £3m. The method of valuing was based on the RICS 'Appraisal and Valuation Manual' and was undertaken by the group's own professionally qualified staff.
In accordance with SSAP19, no depreciation is provided in respect of investment properties. This represents a departure from the Companies Act 1985 requirements to provide for the systematic annual depreciation of fixed assets. However, these properties are held for investment, rather than consumption, and the directors consider that the adoption of the above policy is necessary to give a true and fair view.

Parent	Land and buildings £m	Plant and machinery £m	Fixtures, fittings, tools and equipment £m	Payments on account and assets in course of construction £m	Total £m
Cost or valuation					
At 1st April 1995	37.5	149.2	149.3	11.2	347.2
Additions	0.2	16.8	15.3	31.0	63.3
Disposals	–	(9.0)	(9.9)	(1.2)	(20.1)
Reclassifications and transfers	0.5	7.8	3.2	(11.3)	0.2
At 31st March 1996	**38.2**	**164.8**	**157.9**	**29.7**	**390.6**
Gross book value of depreciable assets	38.0	164.8	157.9	23.2	383.9
Depreciation					
At 1st April 1995	18.7	69.7	82.7	–	171.1
Depreciation for year	0.8	15.0	13.0	–	28.8
Disposals	–	(7.0)	(7.7)	–	(14.7)
Transfers	–	–	0.2	–	0.2
At 31st March 1996	**19.5**	**77.7**	**88.2**	**–**	**185.4**
Net book value at 1st April 1995	18.8	79.5	66.6	11.2	176.1
Net book value at 31st March 1996	**18.7**	**87.1**	**69.7**	**29.7**	**205.2**

Notes		**Group 1996 £m**	Group 1995 £m	**Parent 1996 £m**	Parent 1995 £m
Net book value of land and buildings comprises:					
Freehold		**748.4**	689.1	**18.7**	18.8
Long leasehold (more than 50 years unexpired)		**133.7**	129.1	**–**	–
Short leasehold		**27.2**	27.8	**–**	–
		909.3	846.0	**18.7**	18.8
Analysis of cost or valuation:					
Cost		**1,444.5**	1,293.9	**384.7**	341.3
Valuation of properties	– Directors 1993	**648.9**	650.8	**–**	–
	– Independent 1989	**0.7**	0.7	**–**	–
	– Independent 1965	**0.4**	0.4	**–**	–
	– Independent 1958	**7.2**	7.2	**5.9**	5.9
Investment properties	– Directors 1996	**179.3**	140.3	**–**	–
		2,281.0	2,093.3	**390.6**	347.2
Net book value of tangible fixed assets under the historical cost convention		**1,304.2**	1,188.3	**204.8**	175.6

The last valuation of the group's UK freehold and long leasehold properties, excluding factories and specialised buildings, was carried out at 31st March 1993 by the directors in conjunction with the group's own professionally qualified staff. The valuation was on an open market basis for existing use.

12 Fixed asset investments

Group	Equity £m	Loans £m	Total £m
Investment in associated undertaking:			
At 1st April 1995	16.6	14.0	30.6
Additions	–	24.5	24.5
Loss for the year	(8.7)	–	(8.7)
Capitalisation of loans	25.0	(25.0)	–
At 31st March 1996	**32.9**	**13.5**	**46.4**

Equity is after deducting £70.0m (1995 £61.3m) in respect of the group's share of post acquisition losses of its associated undertaking.

Parent	Shares in subsidiary undertakings £m	Loans to subsidiary undertakings £m	Shares in associated undertaking £m	Loans to associated undertaking £m	Total £m
Cost					
At 1st April 1995	967.0	50.1	132.3	14.0	1,163.4
Additions	3.1	4.9	–	24.5	32.5
Capitalisation of loans	–	–	25.0	(25.0)	–
Disposals and repayments	(0.9)	–	–	–	(0.9)
Currency adjustments	–	0.1	–	–	0.1
At 31st March 1996	**969.2**	**55.1**	**157.3**	**13.5**	**1,195.1**
Provision					
At 1st April 1995	112.1	2.4	71.8	–	186.3
Movement	(8.4)	(0.5)	55.5	–	46.6
At 31st March 1996	**103.7**	**1.9**	**127.3**	**–**	**232.9**
Net book value at 1st April 1995	854.9	47.7	60.5	14.0	977.1
Net book value at 31st March 1996	**865.5**	**53.2**	**30.0**	**13.5**	**962.2**

The principal subsidiary and associated undertakings are listed on page 75.

13 Stocks

	Group 1996 £m	Group 1995 £m	**Parent 1996 £m**	Parent 1995 £m
Manufacturing:				
Raw materials	**18.5**	18.4	**14.6**	15.3
Work in progress	**10.7**	12.3	**8.3**	10.2
Finished goods	**37.5**	24.9	**26.0**	14.6
	66.7	55.6	**48.9**	40.1
Retailing	**449.8**	425.1	**119.5**	122.0
Property development	**5.6**	9.1	**–**	–
	522.1	489.8	**168.4**	162.1

14 Debtors

	Group 1996 £m	Group 1995 £m	Parent 1996 £m	Parent 1995 £m
Falling due within one year:				
Trade debtors	**181.1**	156.4	**22.5**	18.1
Owed by subsidiary undertakings	**–**	–	**589.5**	318.0
Owed by associated undertaking	**0.1**	0.1	**0.1**	0.1
Other debtors	**110.5**	111.9	**95.4**	102.7
Prepayments and accrued income	**61.7**	50.3	**23.1**	5.8
Corporation tax	**5.5**	0.8	**4.7**	–
	358.9	319.5	**735.3**	444.7
Falling due after more than one year:				
Owed by subsidiary undertakings	**–**	–	**161.4**	138.0
Other debtors	**2.2**	4.7	**24.6**	22.9
	2.2	4.7	**186.0**	160.9
	361.1	324.2	**921.3**	605.6

15 Current asset investments and deposits

	Group 1996 £m	Group 1995 £m	Parent 1996 £m	Parent 1995 £m
Listed investments	**199.8**	0.6	**199.7**	0.5
Short term deposits	**683.1**	1,003.7	**657.9**	975.0
Certificates of tax deposit	**11.0**	11.3	**11.0**	11.3
	893.9	1,015.6	**868.6**	986.8
Market value of investments listed on The London Stock Exchange	**202.8**	1.8	**202.7**	1.7

16 Creditors: Amounts falling due within one year

	Group 1996 £m	Group 1995 £m	Parent 1996 £m	Parent 1995 £m
Borrowings (note 18)	**274.8**	288.8	**778.1**	280.6
Trade creditors	**269.6**	264.8	**197.1**	202.3
Bills of exchange	**0.3**	0.6	**0.3**	0.3
Due to subsidiary undertakings	**–**	–	**45.2**	44.8
Corporation tax	**128.2**	122.2	**23.0**	25.4
Advance corporation tax	**42.7**	40.9	**–**	3.0
Taxation and social security (including VAT and other sales taxes)	**60.9**	55.0	**18.8**	12.0
Other creditors	**103.7**	102.9	**38.2**	46.7
Accruals and deferred income	**89.9**	96.5	**41.4**	37.5
Proposed dividend	**122.0**	110.6	**122.0**	110.6
	1,092.1	1,082.3	**1,264.1**	763.2

17 Creditors: Amounts falling due after more than one year

	Group 1996 £m	Group 1995 £m	Parent 1996 £m	Parent 1995 £m
Borrowings (note 18)	**108.2**	224.2	**260.1**	362.3
Due to subsidiary undertakings	**–**	–	**272.5**	354.3
Other creditors	**3.0**	2.5	**0.5**	0.9
Accruals and deferred income	**39.3**	38.0	**29.4**	20.8
	150.5	264.7	**562.5**	738.3

18 Borrowings

	Group 1996 £m	Group 1995 £m	Parent 1996 £m	Parent 1995 £m
Bank loans and overdrafts	**127.1**	224.3	**645.2**	228.9
Variable rate notes	**19.6**	21.9	**19.6**	21.9
Bank acceptances	**–**	19.9	**–**	19.9
Commercial paper	**–**	9.9	**–**	9.9
US$175m 9% bond 1997	**114.4**	108.0	**114.4**	108.0
10.125% bond 2017	**111.0**	123.5	**251.4**	250.0
Net liability under currency swaps	**3.9**	4.3	**3.9**	4.3
Obligations under finance leases	**7.0**	1.2	**3.7**	–
	383.0	513.0	**1,038.2**	642.9
Amounts included above repayable by instalments	**118.2**	124.7	**3.8**	–
Repayments fall due as follows:				
Within one year:				
– Bank loans, overdrafts and acceptances	**127.1**	244.2	**645.2**	248.8
– Other borrowings	**147.7**	44.6	**132.9**	31.8
	274.8	288.8	**778.1**	280.6
After more than one year:				
– Within one to two years	**22.5**	122.4	**6.8**	108.0
– Within two to five years	**58.0**	54.2	**1.9**	4.3
– After five years – by instalments	**27.7**	47.6	**–**	–
– not by instalments	**–**	–	**251.4**	250.0
	108.2	224.2	**260.1**	362.3
	383.0	513.0	**1,038.2**	642.9

All borrowings are unsecured.

Bank loans, overdrafts and acceptances all fall due for repayment within one year.

Variable rate notes are repayable at the option of the holders.

The group has a number of US dollar currency swaps, which are equivalent to borrowing US dollars and depositing sterling for a fixed period. Following the disposal of Boots Pharmaceuticals on 31st March 1995, the group put in place a series of matching swaps, which are equivalent to depositing US dollars and borrowing sterling. The net liability shown above represents the effect of translating the above transactions into sterling at the year end exchange rate.

The group has a number of interest rate swap agreements which convert fixed rate liabilities to floating rate. The fixed rate commitments effectively converted are the US$175m bond, £100m of the 10.125% bond and £350m of operating leases.

A subsidiary, Boots Investments Limited, owns all the £250m 10.125% bond 2017 of The Boots Company PLC, together with all the outstanding interest coupons other than those maturing on or before 24th June 2002. The parent company has entered into an agreement with Boots Investments Limited to redeem the bond on 25th June 2002 for an amount of £275m. The group balance sheet consolidates the borrowing by the parent company with the present value of the investment held by the subsidiary.

19 Provision for liabilities and charges

Group	Deferred taxation £m	Disposal provisions £m	Total £m
At 1st April 1995	14.4	33.2	47.6
Utilised	–	(13.7)	(13.7)
Profit and loss account	11.6	–	11.6
Currency adjustments	0.1	0.1	0.2
At 31st March 1996	**26.1**	**19.6**	**45.7**

Disposal provisions mainly arose on the sale of Boots Pharmaceuticals in March 1995 (see note 4) and include amounts in respect of possible environmental liabilities arising from former involvement in an agro-chemical joint venture in the US.

Parent	Deferred taxation £m	Disposal provisions £m	Total £m
At 1st April 1995	1.3	23.1	24.4
Utilised	–	(13.2)	(13.2)
Profit and loss account	4.6	–	4.6
At 31st March 1996	**5.9**	**9.9**	**15.8**

	Group 1996 £m	Group 1995 £m	**Parent 1996 £m**	Parent 1995 £m
Analysis of deferred taxation provision:				
Accelerated capital allowances	**10.7**	11.6	**0.8**	1.5
Other items	**15.4**	2.8	**5.1**	(0.2)
	26.1	14.4	**5.9**	1.3
Unprovided deferred taxation:				
Accelerated capital allowances	**68.9**	56.9	**23.0**	20.1
Other items	**(2.4)**	(1.4)	**–**	–
	66.5	55.5	**23.0**	20.1

It is not anticipated that any significant taxation will become payable on the revaluation surplus, as taxation on gains on properties used for the purposes of the group's trade is expected to be deferred indefinitely.

20 Capital and reserves

Group	Called up share capital £m	Share premium account £m	Revaluation reserve £m	Capital redemption reserve £m	Profit and loss account £m	Total £m
At 1st April 1995	237.2	219.0	310.7	24.0	1,216.0	2,006.9
Profit retained	–	–	–	–	164.2	164.2
Movement in goodwill (see below)	–	–	–	–	(8.6)	(8.6)
Revaluation surplus	–	–	16.0	–	–	16.0
Revaluation surplus realised on disposals	–	–	(5.3)	–	5.3	–
Issue of shares	0.7	8.7	–	–	–	9.4
Share issue expenses	–	(0.3)	–	–	–	(0.3)
Scrip dividends	0.5	(0.5)	–	–	10.6	10.6
Currency adjustments	–	–	–	–	3.3	3.3
At 31st March 1996	**238.4**	**226.9**	**321.4**	**24.0**	**1,390.8**	**2,201.5**

The revaluation reserve includes £42.5m (1995 £26.4m) relating to investment properties.

Goodwill set off against reserves in respect of businesses still within the group is as follows:	£m
At 1st April 1995	898.2
Goodwill purchased	8.7
Goodwill released on disposal of businesses	(0.1)
At 31st March 1996	**906.8**

Parent	Called up share capital £m	Share premium account £m	Capital redemption reserve £m	Profit and loss account £m	Total £m
At 1st April 1995	237.2	219.0	24.0	904.7	1,384.9
Loss retained	–	–	–	(118.6)	(118.6)
Issue of shares	0.7	8.7	–	–	9.4
Share issue expenses	–	(0.3)	–	–	(0.3)
Scrip dividends	0.5	(0.5)	–	10.6	10.6
At 31st March 1996	**238.4**	**226.9**	**24.0**	**796.7**	**1,286.0**

21 Share capital

	Number of shares 1996 million	Number of shares 1995 million	1996 £m	1995 £m
Ordinary shares of 25p each:				
Authorised	**1,200.0**	1,200.0	**300.0**	300.0
Allotted, called up and fully paid	**953.8**	949.0	**238.4**	237.2

Shares allotted during the year	Number million	Nominal value £m	Consideration £m
Scrip dividends	2.0	0.5	–
Option schemes	2.8	0.7	9.4
	4.8	1.2	9.4

During the year approximately 24% of shareholders owning 7% of shares elected to take all or part of their dividends in shares at a value of £10.6m. Following a change in the legal form of scrip dividends, the nominal value of shares issued during the year has been funded out of the share premium account and the amount of the dividend has been added back to the profit and loss reserve.
Under a savings-related scheme, options may be granted enabling employees to subscribe for ordinary shares at approximately 80% of market price. At 31st March 1996, options exercisable from 1996 to 2003 at between 195p and 421p per share were outstanding in respect of 11,305,099 shares.
Under an executive share option scheme, certain senior executives were granted options to subscribe for ordinary shares after a period of three years from date of grant.

At 31st March 1996, such options were outstanding as follows:

Number of shares	Option price	Exercisable From 5th June 1996 or later where shown	Exercisable To
55,000	257p	–	December 1999
137,500	286p	–	July 2000
35,000	339p	–	December 2000
820,000	399p	–	July 2001
78,500	420p	–	December 2001
410,000	437p	–	August 2002
692,500	438p	June 1996*	June 2003
27,500	523p	November 1996	November 2003
635,000	531p	June 1997	June 2004
127,500	519p	November 1997	November 2004
262,500	482p	February 1998	February 2005

Executive directors have agreed to exercise all their existing executive share options, which are included above and listed on page 45, by 31st March 1998.
On any date, the aggregate nominal amount of new shares over which options may be granted, when added to the nominal amount of new shares issued and remaining issuable in respect of options granted in the previous ten years under all of the company's employee share schemes, may not exceed 10% of the nominal amount of shares in issue immediately before that date.

* Exercisable on or after 24th June 1996.

22 Notes to the group cash flow statement

a Reconciliation of operating profit to net cash inflow from operating activities

	1996 £m	1995 £m
Operating profit	**455.4**	523.0
Operating loss of associated undertakings	**10.1**	5.7
Depreciation and amortisation	**104.8**	113.0
Loss on disposal of fixed assets, excluding properties	**5.5**	6.2
Increase in stocks	**(30.5)**	(28.4)
Increase in debtors	**(19.3)**	(10.7)
Increase in creditors	**11.0**	34.2
Provisions utilised	**(0.5)**	(0.7)
Net cash inflow from operating activities	**536.5**	642.3
Analysed as:		
Continuing operations	**536.5**	532.9
Discontinued operations	**–**	109.4
	536.5	642.3

b Analysis of cash, cash equivalents, investments and borrowings	**Cash and cash equivalents 1996 £m**	**Investments and borrowings 1996 £m**	Cash and cash equivalents 1995 £m	Investments and borrowings 1995 £m
Cash at bank and in hand	**15.3**	**–**	14.6	–
Current asset investments and deposits (note 15):				
– Listed investments	**–**	**199.8**	–	0.6
– Short term deposits	**218.6**	**464.5**	1,002.7	1.0
– Certificates of tax deposit	**–**	**11.0**	–	11.3
	233.9	**675.3**	1,017.3	12.9
Borrowings (note 18):				
– Due within one year	**(126.5)**	**(148.3)**	(253.0)	(35.8)
– Due after more than one year	**–**	**(108.2)**	–	(224.2)
	(126.5)	**(256.5)**	(253.0)	(260.0)
	107.4	**418.8**	764.3	(247.1)
Net cash		**526.2**		517.2

Cash equivalents are highly liquid deposits which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of advance.

Investments and borrowings have original maturities of more than three months.

22 Notes to the group cash flow statement continued

c Analysis of changes in cash and cash equivalents during the year

	1996 £m	1995 £m
At 1st April	**764.3**	79.3
Net cash flow	**(657.4)**	688.5
Currency adjustments	**0.5**	(3.5)
At 31st March	**107.4**	764.3

d Analysis of changes in financing during the year	Capital 1996 £m	Borrowings and finance leases 1996 £m	Capital 1995 £m	Borrowings and finance leases 1995 £m
At 1st April	**480.2**	**260.0**	464.8	306.2
Cash inflows/(outflows) from financing	**9.1**	**(5.0)**	5.9	(3.5)
Scrip dividends	–	–	9.5	–
Borrowings of businesses acquired/disposed (note 4)	–	**1.1**	–	(3.8)
Movement in net liability under currency swaps	–	**(0.4)**	–	(18.5)
Increase in value of investment in 10.125% bond 2017	–	**(12.5)**	–	(11.4)
Currency and other non-cash adjustments	–	**13.3**	–	(9.0)
At 31st March	**489.3**	**256.5**	480.2	260.0

Capital comprises called up share capital, capital redemption reserve and share premium account.

23 Commitments and contingent liabilities

a Future capital expenditure approved by the directors and not provided for in these financial statements is as follows:

	Group 1996 £m	Group 1995 £m	Parent 1996 £m	Parent 1995 £m
Contracts placed	**103.7**	69.2	**25.2**	14.9

b Annual commitments under operating leases at 31st March 1996 are as follows:

	Group Land and buildings £m	Group Other £m	Parent Land and buildings £m	Parent Other £m
Expiring:				
Within one year	**3.1**	**1.0**	**0.2**	**0.5**
Over one year and less than five years	**11.0**	**2.0**	**6.7**	–
Over five years	**141.1**	–	**8.5**	–
	155.2	**3.0**	**15.4**	**0.5**

c The parent company has guaranteed borrowings of its associated undertaking up to a maximum of £30m (1995 £30m). The group has guaranteed a number of annual lease payments of its associated undertaking amounting to £9m.

24 Pensions

The group operates pension schemes throughout the world, most of which are final salary (defined benefit) schemes and are fully funded.

The principal UK pension scheme is Boots Pension Scheme. The actuaries to this scheme, Bacon & Woodrow, carried out their latest valuation of the scheme as at 1st April 1995. The results of the valuation showed that the actuarial value of the assets represented 113% of the actuarial value of the accrued benefits. The accrued benefits valued include all benefits for pensioners and other former members as well as benefits based on service to the valuation date for active members, allowing for future pay increases. The surplus in the scheme is the net result of surpluses carried forward from the two previous valuations as at 1st April 1989 and 1st April 1992 and a deficit arising in respect of the three years ending 1st April 1995. At 1st April 1992 the ratio of the actuarial value of the assets to the value of the accrued benefits was 131%. The reduction in this ratio to 113% is mainly due to the temporary suspension of employer contributions to the scheme.

The pension charge shown in the financial statements for the year was £4m (1995 £nil). This charge arises as a result of the regular cost of pensions being substantially reduced by amortisation of the surpluses disclosed by the 1989 and 1992 valuations and increased by the amortisation of the deficit in respect of the three years ending 1st April 1995. The surpluses and deficits are being recognised over the expected average remaining service life of members at the date of the valuations. The remaining amortisation periods of the surpluses disclosed at the 1989 and 1992 valuations are approximately six and ten years respectively. The deficit disclosed at the 1995 valuation is being recognised over approximately 13 years from that date.

The projected unit method was used both in assessing pension costs for accounting purposes and for funding the scheme. The assumed rate of investment return was $2\frac{1}{2}$% per annum (2% for the 1992 valuation) above the assumed rate of general pay increases, 4% per annum above the assumed rate of pension increases and $4\frac{1}{2}$% per annum above the assumed rate of dividend increases. Members retiring are assumed to be replaced by new entrants so that the average age of the membership remains constant. The market value of the scheme's assets was £1,372m at 1st April 1995.

In common with other companies, the company makes additional pension arrangements for those more recently recruited senior executives whose benefits, relative to long serving staff, are subject to statutory restrictions.

25 Staff numbers and costs

The average number of persons employed by the group during the year was as follows:

	1996	1995
Continuing operations		
Boots The Chemists	**53,384**	52,056
Halfords	**9,241**	9,062
Boots Opticians	**3,235**	3,004
A G Stanley	**2,509**	2,327
Boots Healthcare International	**1,737**	1,896
Boots Contract Manufacturing	**3,739**	3,304
Boots Properties	**84**	74
Central	**1,001**	956
	74,930	72,679
Discontinued operations		
Childrens World	**2,545**	2,280
Boots Pharmaceuticals	**–**	5,891
Total employees	**77,475**	80,850

Total number of persons employed by the group at 31st March 1996 was 77,686 (1995 75,322).

The aggregate payroll cost was as follows:	£m	£m
Wages and salaries	**711.2**	783.5
Social security costs	**50.8**	65.6
Other pension costs	**5.5**	5.3
	767.5	854.4
Analysed as:		
Continuing operations	**752.2**	714.4
Discontinued operations	**15.3**	140.0
	767.5	854.4

26 Remuneration of directors and directors' shareholdings

Details of the remuneration and shareholdings of the directors are included in the Board Remuneration Committee's Report on pages 40 to 45.

Principal Companies

	Percentage held by parent	Percentage held by subsidiary undertakings	Country of incorporation where operating overseas	Principal activities
Parent				
The Boots Company PLC				Manufacturing, marketing and distribution of healthcare and consumer products
Subsidiary undertakings (registered in England and Wales)				
A G Stanley Ltd.		100		Retailing of decorative products and interior furnishings
BCM Ltd.	100			Manufacturing healthcare and consumer products
Boots Development Properties Ltd.		100		Property development
Boots Healthcare International Ltd.	100			Marketing consumer products
Boots Opticians Ltd.		100		Registered opticians
Boots Properties PLC	100			Property holding
Boots The Chemists Ltd.	100			Retail chemists
Crookes Healthcare Ltd.	100			Marketing consumer products
Halfords Ltd.	100			Retailing of autoparts, accessories and bicycles and car servicing
Optrex Ltd.	100			Marketing consumer products
Subsidiary undertakings (incorporated overseas)				Activities refer to healthcare and/or consumer products unless otherwise indicated
The Boots Company (Australia) Pty. Ltd.	100		Australia	Manufacturing and marketing
Boots Healthcare SA NV		100	Belgium	Marketing
Boots Healthcare SA	100		France	Marketing
BCM Cosmetique SA	100		France	Manufacturing and marketing
BCM Kosmetik GmbH	100		Germany	Manufacturing and marketing
Mountgrave Insurance Ltd.	100		Guernsey	Insurance company
Boots Healthcare Ltd.		100	Ireland	Marketing
Boots Healthcare Marco Viti Farmaceutici S.p.A.	100		Italy	Manufacturing and marketing
Boots Investments Ltd.	100		Jersey	Investment company
Optrex (Malaya) Sdn. Bhd.		100	Malaysia	Marketing
Boots Healthcare BV		100	Netherlands	Marketing
The Boots Company (New Zealand) Ltd.	100		New Zealand	Marketing
The Boots Company (Philippines) Inc	100		Philippines	Marketing
The Boots Company (Far East) Pte. Ltd.	100		Singapore	Marketing
The Boots Company (South Africa) (Pty.) Ltd.	100		South Africa	Manufacturing and marketing
Boots Healthcare S.A.	100		Spain	Marketing
The Boots Company (Thailand) Ltd.	100		Thailand	Marketing
Associated undertaking (registered in England and Wales)				
Do It All (Holdings) Ltd.				DIY retailer
108,500,000 'A' ordinary shares	100			
108,500,000 'B' ordinary shares	–			

All percentages relate to holdings of ordinary share capital.
All companies operate principally in the country of incorporation.

Profit and loss account	1996 £m	1995 £m	1994 £m	1993 £m	1992 £m
Turnover	**4,124.7**	4,308.1	4,167.1	3,962.1	3,660.3
Operating profit before exceptional items	**442.6**	520.2	487.9	426.5	405.5
Operating exceptional items	**12.8**	2.8	(73.8)	(3.0)	–
Operating profit	**455.4**	523.0	414.1	423.5	405.5
Other exceptional items	**1.4**	321.3	5.3	0.5	(18.8)
Profit on ordinary activities before interest	**456.8**	844.3	419.4	424.0	386.7
Net interest	**50.9**	5.4	(3.1)	(19.6)	(46.1)
Profit on ordinary activities before taxation	**507.7**	849.7	416.3	404.4	340.6
Taxation	**(167.1)**	(185.8)	(126.3)	(124.4)	(109.7)
Profit on ordinary activities after taxation	**340.6**	663.9	290.0	280.0	230.9
Minority interests	**–**	(4.7)	(1.7)	(1.7)	(1.5)
Profit attributable to shareholders	**340.6**	659.2	288.3	278.3	229.4
Dividends	**(176.4)**	(166.4)	(156.0)	(139.0)	(126.4)
Profit retained	**164.2**	492.8	132.3	139.3	103.0

Total recognised gains and losses					
Profit attributable to shareholders	**340.6**	659.2	288.3	278.3	229.4
Surplus/(deficit) on revaluation of properties	**16.0**	6.6	16.8	(223.2)	–
Currency translation differences	**3.3**	(18.5)	1.7	34.5	3.3
Other net gains/(losses)	**–**	0.2	0.7	(0.5)	13.5
Recognised gains and losses for the year	**359.9**	647.5	307.5	89.1	246.2

Movements in shareholders' funds					
Recognised gains and losses for the year	**359.9**	647.5	307.5	89.1	246.2
Dividends	**(176.4)**	(166.4)	(156.0)	(139.0)	(126.4)
New share capital subscribed	**9.1**	15.4	9.3	126.2	52.2
Repurchase of shares	**–**	(511.3)	–	–	–
Goodwill purchased	**(8.7)**	(3.9)	(7.1)	(1.4)	(2.7)
Goodwill released on disposal of businesses	**0.1**	383.4	0.4	–	–
Scrip dividends	**10.6**	–	–	–	–
Currency adjustment on goodwill	**–**	33.6	(23.7)	(29.0)	(1.8)
Increase in shareholders' funds	**194.6**	398.3	130.4	45.9	167.5

Balance sheet	1996 £m	1995 £m	1994 £m	1993 £m	1992 £m
Fixed assets	**1,651.0**	1,526.7	1,525.3	1,459.8	1,633.9
Investments	**46.4**	30.6	57.1	70.8	57.5
Net current assets	**700.3**	761.9	378.5	375.4	17.0
Other creditors	**(150.5)**	(264.7)	(315.9)	(393.3)	(236.4)
Provisions for liabilities and charges	**(45.7)**	(47.6)	(29.1)	(27.9)	(34.6)
Net assets	**2,201.5**	2,006.9	1,615.9	1,484.8	1,437.4
Represented by:					
Shareholders' funds	**2,201.5**	2,006.9	1,608.6	1,478.2	1,432.3
Minority interests	**–**	–	7.3	6.6	5.1
	2,201.5	2,006.9	1,615.9	1,484.8	1,437.4

Cash flow statement

Net cash inflow from operating activities	**536.5**	642.3	635.9	549.6	472.2
Returns on investment and servicing of finance	**(138.2)**	(144.1)	(47.6)	(238.8)	(138.5)
Tax paid	**(152.7)**	(139.5)	(108.6)	(100.3)	(93.4)
Investing activities	**(907.1)**	838.7	(260.8)	(282.6)	(200.2)
Net cash (outflow)/inflow before financing	**(661.5)**	1,197.4	218.9	(72.1)	40.1
Financing	**4.1**	(508.9)	(126.2)	183.6	(5.0)
Change in cash and cash equivalents	**(657.4)**	688.5	92.7	111.5	35.1

Statistics

Sales growth	***(4.3)%**	3.4%	5.2%	8.2%	2.6%
Return on shareholders' funds	**17.0%**	41.3%	19.6%	19.5%	18.3%
Earnings per share	**35.8p**	65.7p	27.7p	26.9p	23.0p
Earnings per share before exceptional items	**34.7p**	36.0p	33.0p	27.1p	24.9p
Net cash/(debt)	**526.2**	517.2	69.0	(203.8)	(362.3)
Capital expenditure	**239.7**	249.8	224.0	169.0	172.7

Return on shareholders' funds is calculated as profit on ordinary activities after taxation as a percentage of opening shareholders' funds.
*Sales growth from continuing operations was 5.8%.

Shareholder value

Dividend per share	**18.5p**	17.0p	15.0p	13.4p	12.4p
Dividend cover	**1.9**	4.0	1.8	2.0	1.8
Share price:					
Highest	**627p**	582p	605p	561p	479p
Lowest	**500p**	458p	417p	403p	359p

Segmental Financial Record – Continuing Operations

	1996 £m	1995 £m	1994 £m	1993 £m	1992 £m
Turnover, including inter-segmental turnover:					
Boots The Chemists	**3,107.6**	2,943.8	2,808.0	2,663.9	2,471.8
Halfords	**390.5**	377.9	357.0	327.2	306.9
Boots Opticians	**132.3**	119.1	102.1	93.9	84.3
A G Stanley	**104.9**	114.6	111.6	111.6	110.9
Share of Do It All	**170.7**	185.3	194.2	200.2	203.7
Boots Healthcare International	**206.7**	203.5	227.7	210.9	
Boots Contract Manufacturing	**239.4**	216.0	208.8	195.2	
Boots Properties					
Development	**7.0**	5.6	20.7	1.1	5.6
Investment	**95.9**	92.4	87.7	82.9	74.1
Operating profit before operating exceptional items:					
Boots The Chemists	**384.8**	349.7	323.9	284.4	246.4
Halfords	**22.1**	20.5	14.5	4.5	(9.5)
Boots Opticians	**10.9**	8.3	6.7	6.6	5.7
A G Stanley	**(12.2)**	(8.5)	(1.2)	2.8	6.5
Share of Do It All	**(10.1)**	(6.3)	(10.6)	(11.3)	3.2
Boots Healthcare International	**(8.2)**	9.8	21.3	15.9	
Boots Contract Manufacturing	**16.7**	17.8	16.2	13.1	
Boots Properties					
Development	**1.8**	1.7	5.8	(2.3)	4.1
Investment	**66.4**	65.1	61.3	56.6	50.7
Capital expenditure:					
Boots The Chemists	**86.1**	81.6	91.9	63.2	62.7
Halfords	**14.5**	16.7	10.6	7.7	5.6
Boots Opticians	**11.2**	18.8	12.5	4.6	6.4
A G Stanley	**4.0**	8.8	9.7	6.8	4.7
Boots Healthcare International	**12.5**	5.7	3.4	5.1	
Boots Contract Manufacturing	**29.5**	22.2	18.8	18.5	
Boots Properties	**75.1**	73.6	54.1	36.7	45.3

Comparative figures for Boots Healthcare International and Boots Contract Manufacturing are unavailable for years earlier than 1993, as these business segments were not established until that year.

Annual general meeting
The annual general meeting will be held at 11.00 am on Thursday, 25th July 1996 at the Queen Elizabeth II Conference Centre, Broad Sanctuary, Westminster, London. Each shareholder is entitled to attend and vote at the meeting, the arrangements for which are described in a separate notice.

Dividend payments
The proposed final dividend (if approved) will be paid on 23rd August 1996 to shareholders registered on 25th June 1996. Shareholders will again have the opportunity to receive their dividend in shares instead of cash, subject to the passing of the appropriate resolution at the annual general meeting. Details will be posted to shareholders on 4th July 1996. All forms of election or instructions for revocation of existing mandates must be received by the company's registrars by 5.00 pm on 24th July 1996.

The expected dividend payment dates for the year to 31st March 1997 are:

Interim dividend	February 1997
Final dividend	August 1997

Results
For the year to 31st March 1997:

Interim results announced	November 1996
Interim statement circulated	November 1996
Preliminary announcement of full year results	June 1997
Annual report circulated	June 1997

Capital gains tax
For capital gains tax purposes, the market price of the company's ordinary shares of 25p each on 31st March 1982 was 112.5p.

Low cost share dealing services
Details of special low cost dealing services in the company's shares may be obtained from:

- **Hoare Govett Corporate Finance Limited** (telephone 0171 601 0101) Hoare Govett is regulated by the Securities and Futures Authority.
- **National Westminster Bank Plc** (telephone 0171 895 5454) National Westminster Bank Plc is regulated by the Personal Investment Authority and IMRO. Share dealing services are provided by NatWest Stockbrokers Limited, which is a member of the London Stock Exchange and regulated by the Securities and Futures Authority.

Both Hoare Govett and National Westminster Bank Plc have approved the references to them for the purposes of section 57 of the Financial Services Act 1986.

Personal equity plans (PEPs)
General and Single Company PEPs in the ordinary shares of the company are available for investors wishing to take advantage of preferential tax treatment in relation to their shareholdings. For further information contact The Plan Manager, National Westminster Bank Plc, NatWest PEP Office, 55 Mansell Street, London E1 8AN. Telephone helpline 0171 895 5600.

Registrar and Transfer Office
The Royal Bank of Scotland plc, Registrar's Department, PO Box 82, Caxton House, Redcliffe Way, Bristol BS99 7NH. Telephone 0117 930 6666

Company Secretary and Registered Office
I A Hawtin; The Boots Company PLC, Nottingham NG2 3AA. Telephone 0115 950 6111
The Boots Company PLC is registered in England and Wales (No. 27657).

Analysis of shareholders at 31st March 1996

Shareholders' range	Number	%	Total holding	%
1-500	36,922	28.96	8,753,283	0.92
501-1,000	31,005	24.32	23,420,392	2.46
1,001-10,000	56,002	43.92	145,691,084	15.27
10,001-100,000	2,901	2.28	71,082,910	7.45
100,001-1,000,000	529	0.41	170,748,389	17.90
Over 1,000,000	144	0.11	534,088,140	56.00
	127,503	100.00	953,784,198	100.00

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